CHINA SHANSHUI CEMENT GROUP LIMITED
中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 691

2008
Annual Report

Contents

Definitions

In this annual report, unless the context otherwise requires, the following words and expressions have the following meanings:

"Company" or "Shanshui Cement"	China Shanshui Cement Group Limited
"Group"	the Company and its subsidiaries
"Reporting Period"	1 January 2008 to 31 December 2008
"Directors"	Directors of the Company
"Board"	Board of Directors of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules of the Stock Exchange"	the Rules Governing the Listing of Securities on the Stock Exchange
"SFO"	Securities and Futures Ordinance (Cap. 571) (as amended, supplemented or otherwise modified from time to time)
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of US$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"clinker"	a semi-finished product in the cement production process
"RMB"	Renminbi
"PRC"	The People's Republic of China
"National Bureau of Statistics of China"	The National Bureau of Statistics of the People's Republic of China

(I) Company Profile

1. BOARD OF DIRECTORS

Executive Directors

ZHANG Caikui (Chairman)

LI Yanmin

DONG Chengtian

YU Yuchuan

Non-Executive Directors

Homer SUN

JIAO Shuge (alias JIAO Zhen)

Independent Non-Executive Directors

SUN Jianguo

WANG Yanmou

WANG Jian

Audit Committee

WANG Yanmou (Chairman)

SUN Jianguo

WANG Jian

Remuneration Committee

SUN Jianguo (Chairman)

WANG Yanmou

WANG Jian

2. COMPANY PROFILE

(1)	Company Name		
	Company Name in Chinese	:	中國山水水泥集團有限公司
	Official English name of the Company	:	CHINA SHANSHUI CEMENT GROUP LIMITED
(2)	Registered Office	:	Offices of Maples Corporate Services Limited PO Box 309, Ugland House Grand Cayman, KY 1-1104 Cayman Islands
(3)	Principal Place of Business in China	:	Sunnsy Industrial Park, Gushan Town, Changqing District, Jinan, Shandong, China
(4)	Principal Place of Business in Hong Kong	:	3rd Floor, Queen's Road Centre, 152 Queen's Road Central, Central, Hong Kong
(5)	E-mail address	:	ir@shanshuigroup.com
(6)	Website	:	www.shanshuigroup.com
(7)	Authorised Representatives	:	ZHANG Caikui, LI Yanmin
(8)	Alternate Authorised Representative	:	LI Cheung Hung

(I) Company Profile

(9)	Joint Company Secretaries	:	ZHANG Bin, LI Cheung Hung - ACIS, ACS, FCPA, FAIA
(10)	Qualified Accountant	:	LI Cheung Hung - ACIS, ACS, FCPA, FAIA
(11)	Principal Bankers	:	China Merchants Bank China Construction Bank Corporation
(12)	Listing Date	:	4 July 2008
(13)	Website for publication of this report	:	www.shanshuigroup.com
(14)	Exchange on which the Company's shares are listed	:	The Hong Kong Stock Exchange
(15)	Stock code	:	0691
(16)	Stock Short Name	:	Shanshui Cement
(17)	Hong Kong Share Registrar and Transfer Office	:	Computershare Hong Kong Investor Services Limited
	Address	:	Rooms 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
(18)	Compliance Adviser	:	Guotai Junan Capital Limited
(19)	Legal Advisers		
	as to PRC laws	:	Commerce & Finance Law Offices
	as to Hong Kong laws	:	Norton Rose Hong Kong
(20)	Auditor	:	KPMG

(II) Corporate Information

Shanshui Group is the largest cement producer in Shandong and Liaoning Provinces of China. Our dominant market position and superior product quality provide us pricing power and help us attract key customers. Leveraging on the government's economic stimulus plan, we have taken advantage of the considerable growth opportunities in the construction and infrastructure sectors in our target markets. As one of the 12 large scale cement enterprises receiving key support from the government, the Group has carried out market consolidation through active acquisitions in Shandong and Liaoning Provinces, realising rapid growth and increasing market share. Our efficient production facility layout and extensive sales network enable us to minimise transportation costs and to optimise regional market penetration. Leveraging on years of production expertise and know-how, we have gained a competitive cost advantage in terms of both production and capacity expansion.

In 2008, with its outstanding operating results and growth prospects, Shanshui Group was successfully listed in Hong Kong on 4 July 2008 and was over-subscribed. The over-allotment option was fully exercised. Following the listing, the trading price of "Shanshui Cement" rose continuously, and stayed above the offer price until early September 2008. Among the 21 companies newly listed in Hong Kong in 2008, only two managed to achieve this. In December 2008, "Shanshui Cement" won the *Awards for Achievement 2008 - Best Mid-Cap Equity Deal* from "Finance Asia", one of the most influential financial magazines in Asia.

(II) Corporate Information

1. KEY DATA

(1) Key financial data

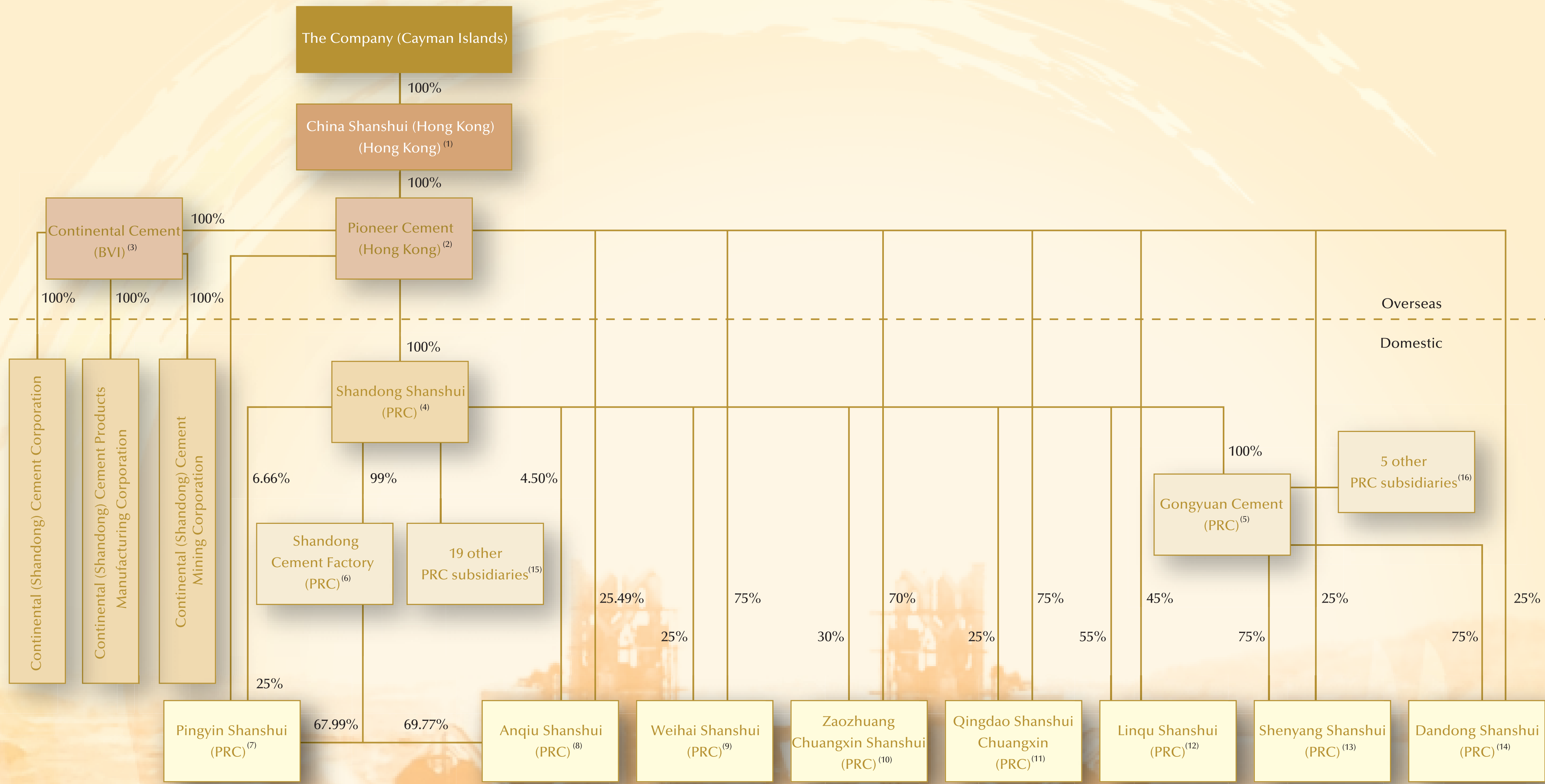
(Unit:RMB'000)

	For the 12 months ended 31 December		
	2008	2007	2006
Revenue	**7,500,761**	4,144,552	3,500,914
Gross profit	**1,586,448**	771,681	625,111
Gross profit margin	**21.2%**	18.6%	17.9%
Profit from operations	**1,025,448**	431,907	390,177
Profit margin from operations	**13.7%**	10.4%	11.1%
Profit attributable to equity holders of the Company	**539,357**	211,948	201,616
Basic earnings per share (RMB)	**0.23**	0.11	0.10
Total assets	**12,772,617**	10,281,869	4,454,876
Liability	**8,167,068**	7,708,891	3,944,195
Gearing ratio	**43.6%**	59.1%	82.1%
Net cash generated from operating activities	**1,037,261**	323,898	328,305

(2) Key business data

	2008	2007	2006
Sales volume of cement ('000 tonnes)	**25,112**	17,235	14,893
Sales volume of clinker ('000 tonnes)	**5,466**	4,510	3,284
Unit selling price of cement (RMB/tonne)	**235.2**	183.2	189.1
Unit selling price of clinker (RMB/tonne)	**213.9**	166.3	168.5

2. DIAGRAM OF SHAREHOLDING STRUCTURE OF THE GROUP



(II) Corporate Information

Note:

(1) China Shanshui Cement Group (Hong Kong) Company Limited. Its principal business is investment holding.

(2) China Pioneer Cement (Hong Kong) Company Limited. Its principal business is investment holding.

(3) Continental Cement Corporation ("Continental Cement"). Its principal business is investment holding.

(4) Shandong Shanshui Cement Group Company Limited ("Shandong Shanshui"). Its principal businesses are designing, manufacturing and sale of cement, cement products and construction materials.

(5) Liaoning Shanshui Gongyuan Cement Company Limited ("Gongyuan Cement"). Its principal businesses are cement production; sale of cement products, cement packaging, steel, metals and chemical products.

(6) Shandong Cement Factory Company Limited ("Shandong Cement Factory"). The remaining 1% equity interest is held by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui"). Its principal businesses are manufacturing of cement and slag fine powder.

(7) Pingyin Shanshui Cement Company Limited ("Pingyin Shanshui"). The remaining 0.35% of the equity interest is held by Jinan Shanshui. Its principal businesses are production and sale of cement, clinker, slag powder and fly ash powder.

(8) Anqiu Shanshui Cement Company Limited ("Anqiu Shanshui"). The remaining 0.24% of the equity interest is held by Jinan Shanshui. Its principal businesses are manufacturing and sale of cement and clinker, and limestone mining.

(9) Weihai Shanshui Cement Company Limited ("Weihai Shanshui"). Its principal businesses are manufacturing and selling of cement.

(10) Zaozhuang Chuangxin Shanshui Cement Company Limited ("Zaozhuang Chuangxin Shanshui"). Its principal businesses are manufacturing and selling of cement.

(11) Qingdao Shanshui Chuangxin Cement Company Limited ("Qingdao Shanshui Chuangxin"). Its principal businesses are manufacturing and selling of cement.

(12) Linqu Shanshui Cement Company Limited ("Linqu Shanshui"). Its principal businesses are manufacturing and selling of cement.

(13) Shenyang Shanshui Gongyuan Cement Company Limited ("Shenyang Shanshui"). Its principal businesses are manufacturing and selling of cement.

(14) Dandong Shanshui Gongyuan Cement Company Limited ("Dandong Shanshui"). Its principal businesses are manufacturing and selling of cement.

(15) The details of the 19 subsidiaries directly or indirectly owned by Shandong Shanshui are as follows (except for "Gongyuan Cement" and its wholly-owned subsidiaries):

Name of subsidiary	Shareholders
Liaocheng Shanshui Cement Company Limited (聊城山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Dongying Shanshui Cement Company Limited (東營山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Changle Shanshui Cement Company Limited (昌樂山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Binzhou Shanshui Cement Company Limited (濱州山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Gucheng Shanshui Cement Company Limited (故城山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Cement Mechanics Company Limited (濟南山水水泥機械有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Jinan Shanshui Wuliugang Company Limited (濟南山水物流港有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Zibo Shuangfeng Shanshui Cement Company Limited (淄博雙鳳山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Shandong Shanshui Cement Industrial Design Development Company Limited(1) (山東山水水泥工業設計開發有限公司)	Shandong Shanshui holding 90% of the equity interest; Jinan Shanshui holding 10% of the equity interest

(II) Corporate Information

Name of subsidiary	Shareholders
Zibo Shanshui Cement Company Limited (淄博山水水泥有限公司)	Shandong Shanshui holding 99% of the equity interest; Jinan Shanshui holding 1% of the equity interest
Juye Shanshui Cement Company Limited (巨野山水水泥有限公司)	Shandong Shanshui holding 96% of the equity interest; Pingyin Shanshui holding 4% of the equity interest
Jinan Shiji Chuangxin Cement Company Limited (濟南世紀創新水泥有限公司)	Shandong Shanshui holding 95.18% of the equity interest
Weifang Shanshui Cement Company Limited (濰坊山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Weifang Shanshui Packaging Products Company Limited (濰坊山水包裝製成品有限公司)	Weifang Shanshui holding 90% of the equity interest; Changle Shanshui holding 10% of the equity interest
Yantai Shanshui Cement Company Limited (煙台山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Liaoyang Qianshan Cement Company Limited ("Qianshan Cement") (遼陽千山水泥有限公司)	Shandong Shanshui holding 73% of the equity interest; Jiang Ming (姜明) holding 25.9% of the equity interest and Wang Yinlong (王蔭龍) holding 1.1% of the equity interest
Zaozhuang Shanshui Cement Co., Ltd (棗莊山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Dalian Shanshui Cement Company Limited (大連山水水泥有限公司)	Shandong Shanshui holding 100% of the equity interest
Yishui Shanshui Cement Company Limited (沂水山水水泥有限公司)	Shandong Shanshui holding 96% of the equity interest; Jinan Shanshui holding 4% of the equity interest

Note: (1) Shandong Shanshui Cement Industrial Design Development Company Limited was formerly known as Jinan Shanshui Cement Technology Development Company Limited (濟南山水水泥技術開發有限公司). During the Reporting Period, the company completed name change and capital increase.

(16) The details of "Gongyuan Cement" and its wholly-owned subsidiaries are as follows:

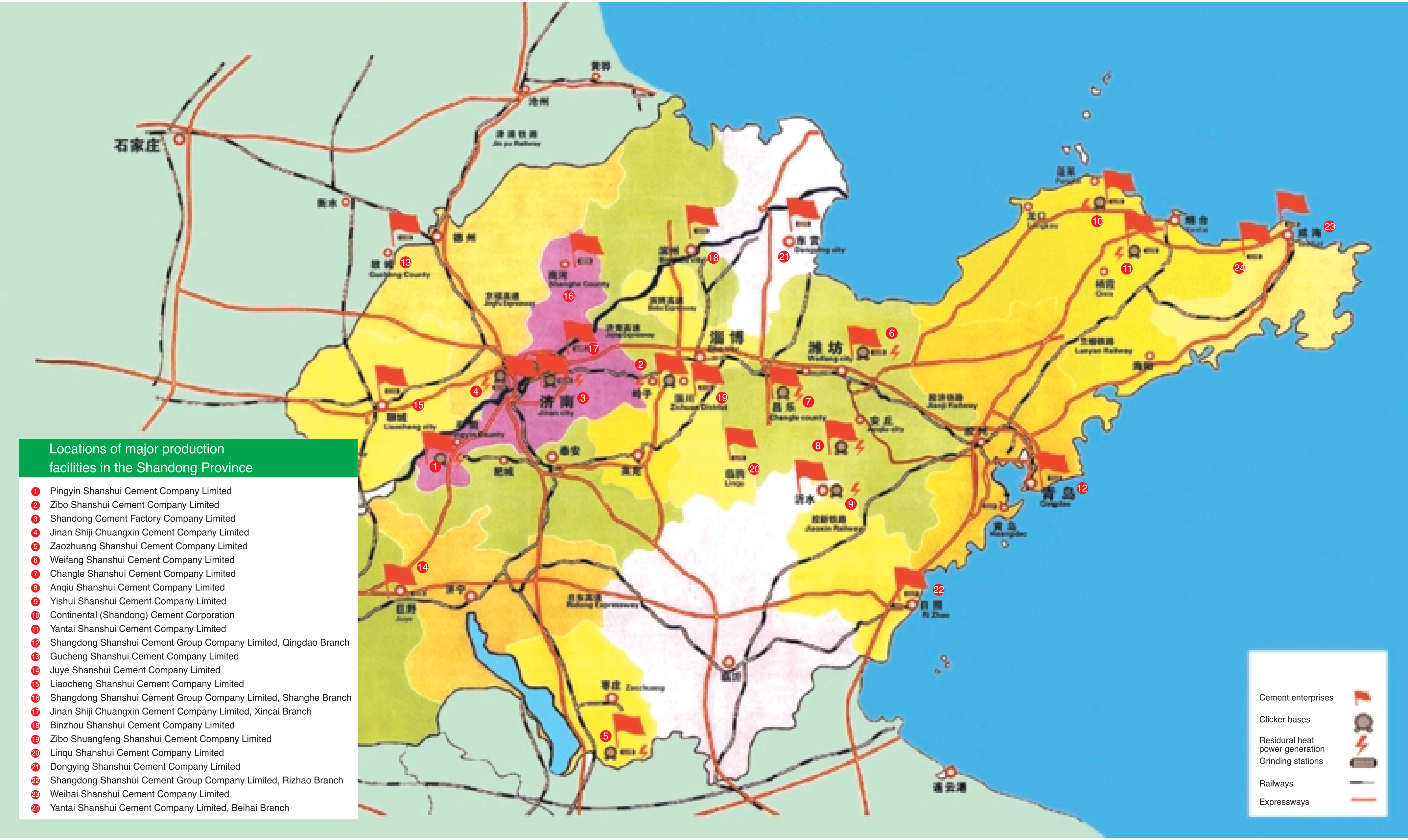
Name of subsidiary	Shareholders
Tongliao Gongyuan Cement Company Limited (通遼工源水泥有限公司)	"Gongyuan Cement" holding 100% of the equity interest
Benxi Gongyuan Clinker Sales Company Limited (本溪工源熟料銷售有限公司)	"Gongyuan Cement" holding 100% of the equity interest
Benxi Shanshui Gongyuan Transportation Company Limited (本溪山水工源汽車運輸有限公司)	"Gongyuan Cement" holding 100% of the equity interest
Benxi Shanshui Mechanics and Electronic Engineering Company Limited (本溪山水機電工程有限公司)	"Gongyuan Cement" holding 100% of the equity interest
Benxi Shanshui Gongyuan Packaging Products Company Limited (本溪山水工源包裝製成品有限公司)	"Gongyuan Cement" holding 100% of the equity interest

3. DISTRIBUTION OF PRODUCTION FACILITIES

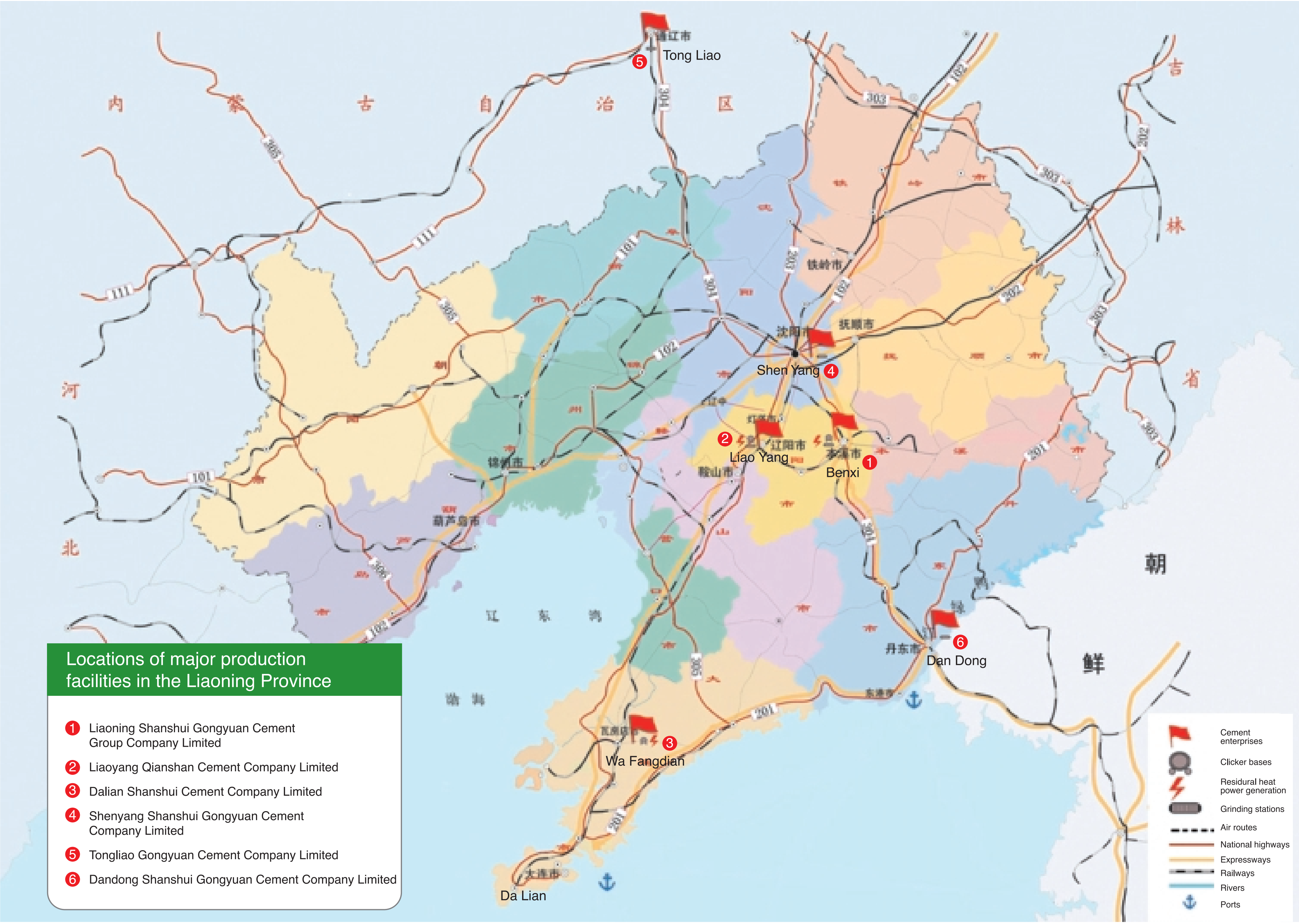
As of 31 December 2008, the Company had 15 clinker production lines and 55 cement grinding lines in operation in Shandong Province, and 4 clinker production lines and 23 cement grinding lines in Liaoning Province. The Company had a total production capacity of 35.84 million tonnes of cement and 20.04 million tonnes of clinker, representing an increase of one million tonnes of cement, and 1.61 million tonnes of clinker over the 31 December 2007 year-end cement and clinker capacities.

All of the Group's clinker production facilities are located near its limestone mines and serve cement grinding stations that are strategically located in close proximity to its end-markets. The Group relies on a more extended transportation radius for clinker rather than for limestone or cement. This production facility layout enables us to minimise our logistics and transportation costs and broaden our market coverage.

The diagram below shows the locations of our major production facilities in Shandong Province as of 31 December 2008:



The diagram below shows the locations of our major production facilities in Liaoning Province as of 31 December 2008:



(III) Financial Data Summary

The financial data for the year ended 31 December 2008

CONSOLIDATED INCOME STATEMENT

(Unit: RMB'000, unless stated otherwise)

	2008	2007	2006
Revenue	**7,500,761**	4,144,552	3,500,914
Profit from operations	**1,025,448**	431,907	390,177
Net profit	**549,211**	214,579	203,664
Attributable to:			
Equity holders of the Company	**539,357**	211,948	201,616
Minority interests	**9,854**	2,631	2,048
Basic earnings per share (RMB)	**0.23**	0.11	0.10
Diluted earnings per share (RMB)	**0.23**	0.10	0.10

CONSOLIDATED BALANCE SHEET

(Unit: RMB'000)

	2008	2007	2006
Asset			
Non-current assets	**9,666,557**	7,712,680	3,303,166
Current assets	**3,106,060**	2,569,189	1,151,710
Total assets	**12,772,617**	10,281,869	4,454,876
Liabilities	**8,167,068**	7,708,891	3,944,195
Equity attributable to equity holders of the Company	**4,560,571**	2,531,493	491,625
Minority interests	**44,978**	41,485	19,056
Non-current liabilities	**2,981,491**	2,662,824	1,517,272
Current liabilities	**5,185,577**	5,046,067	2,426,923
Total equity and liabilities	**12,772,617**	10,281,869	4,454,876

CONSOLIDATED CASH FLOW STATEMENT

(Unit: RMB'000)

	2008	2007	2006
Net cash generated from operating activities	**1,037,261**	323,898	328,305
Net cash used in investing activities	**(2,404,513)**	(2,093,526)	(365,361)
Net cash generated from/(used in) financing activities	**1,912,808**	2,168,204	(126,718)
Net increase/(decrease) in cash and cash equivalents	**545,556**	398,576	(163,774)

(IV) Changes in Share Capital and Shareholdings of Shareholders and the Directors

1. CHANGES IN SHARE CAPITAL AND GENERAL INFORMATION ON THE LISTING OF THE SHARES

(1) Changes in share capital

As of the date of our incorporation, our authorised share capital was US$10,000,000 divided into 1,000,000,000 shares of par value of US$0.01 each. On 14 June 2008, the authorised share capital of the Company was increased to US$100,000,000 by the creation of 9,000,000,000 additional Shares.

(2) Offering and listing of Shares

As of 31 December 2007, the Company has issued 3,254,200 Shares. Pursuant to the resolutions of our Shareholders passed on 14 June 2008, our Directors are authorised to allot and issue a total of 1,949,265,800 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on 14 June 2008 in proportion to their respective shareholdings by way of capitalisation of the sum of US$19,492,658 standing to the credit of the share premium account of our Company. Pursuant to the International Placing Agreement dated 26 June 2008 and Hong Kong Underwriting Agreement dated 19 June 2008, the Company offered 650,840,000 Shares on a global basis. Pursuant to the resolutions passed by the board committee of the Company on 25 July 2008, 97,626,000 additional Shares were issued on 29 July 2008 following the over-subscription of the Global Offering, representing 15% of the total number of shares issued in the Global Offering. As at 31 December 2008, the Company had a total of 2,700,986,000 Shares in issue.

2. SUMMARY OF TRADING OF THE SHARES IN 2008

The highest and lowest prices achieved by our Shares for each of the months up to the end of the Reporting Period are as follows:

Month	**Highest price** (HK$)	**Lowest price** (HK$)
July	3.36	2.74
August	3.14	2.70
September	2.91	1.50
October	2.13	0.76
November	1.65	1.14
December	1.92	1.48

3. SHAREHOLDINGS OF SHAREHOLDERS AND DIRECTORS

(1) Shareholdings of substantial shareholders

As at 31 December 2008, the interests or short positions of persons, other than Directors and Chief Executive of the Company, in the Shares and underlying shares of the Company, which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, were as follows:

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue[2]
China Shanshui Investment Company Limited	871,736,400(L)	Beneficial owner	32.27%
MS Cement Limited [3]	207,921,600(L)[4]	Beneficial owner	7.70%
Morgan Stanley Private Equity Asia, LP [3]	662,897,400(L)[4]	Interest in controlled corporations	24.54%
Morgan Stanley Private Equity Asia, L.L.C. [3]	735,516,600(L)[4][5]	Interest in controlled corporations	27.23%
Morgan Stanley Private Equity Asia, Inc [3]	735,516,600(L)[4][5]	Interest in controlled corporations	27.23%
MS Cement IV Limited [6]	454,975,800(L)	Beneficial owner	16.84%
Morgan Stanley Private Equity Asia III, LP [6]	454,975,800(L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Asia III, L.L.C. [6]	454,975,800(L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Asia III, Inc [6]	454,975,800(L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Holdings (Cayman) Limited [6]	454,975,800(L)	Interest in controlled corporations	16.84%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited [6]	454,975,800(L)	Interest in controlled corporations	16.84%

(IV) Changes in Share Capital and Shareholdings of Shareholders and the Directors

Name of shareholder	Number of Ordinary Shares interested[1]	Nature of interests	Percentage of Shares in issue[2]
CDH Construct Limited [7]	136,492,200(L)	Beneficial owner	5.05%
CDH China Fund III, L.P. [7]	136,492,200(L)	Interest in a controlled corporation	5.05%
CDH III Holdings Company Limited [7]	136,492,200(L)	Interest in a controlled corporation	5.05%
CDH Diamond Holdings III, L.P. [7]	136,492,200(L)	Interest in a controlled corporation	5.05%
China Diamond Holdings Company Limited [7]	136,492,200(L)	Interest in a controlled corporation	5.05%

Notes:

(1) The letter "L" denotes a long position in such Shares.

(2) Without taking into account the dilution effect of the conversion of the Convertible Notes.

(3) MS Cement Limited ("MS I"), a limited liability company incorporated in the Cayman Islands, is controlled by Morgan Stanley Private Equity Asia L.P. ("MSPEA"), a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA is Morgan Stanley Private Equity Asia, L.L.C. ("MSPEA GP"), the managing member of which is Morgan Stanley Private Equity Asia, Inc., a wholly-owned subsidiary of Morgan Stanley. Each of MSPEA, MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the Shares held by MS I.

(4) This includes 58,276,800 Shares which MS I is entitled to but has not yet converted pursuant to the Convertible Notes issued by the Company on 21 September 2007 to MS I, MS Cement II Limited ("MS II"), International Finance Corporation ("IFC")and CDH Cement Limited (CDH Cement), which are convertible into Shares subject to the terms and conditions therein contained (the "Convertible Notes"). Each of MSPEA, MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the conversion Shares which MS I is interested in.

(5) This includes 20,429,400 Shares which MS II is entitled to but has not yet converted pursuant to the Convertible Notes. Each of MSPEA GP and Morgan Stanley Private Equity Asia, Inc. is deemed to be interested in the conversion Shares which MS II is interested in.

(IV) Changes in Share Capital and Shareholdings of Shareholders and the Directors

(6) MS Cement IV Limited ("MS IV"), a limited liability company incorporated in the Cayman Islands, is jointly controlled by MSPEA and Morgan Stanley Private Equity Asia III, L.P. (through their respective control of Morgan Stanley Private Equity Holdings (Cayman) Limited and Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited), which are funds managed by the private equity arm of Morgan Stanley. The general partners of such funds are MSPEA GP and Morgan Stanley Private Equity Asia III, L.L.C. ("MSPEA III GP"), respectively. The managing members of MSPEA GP and MSPEA III GP are respectively Morgan Stanley Private Equity Asia, Inc. and Morgan Stanley Private Equity Asia III, Inc., both of which are wholly-owned subsidiaries of Morgan Stanley. Each of Morgan Stanley Private Equity Holdings (Cayman) Limited, Morgan Stanley Private Equity Asia III Holdings (Cayman) Limited, MSPEA, Morgan Stanley Private Equity Asia III, L.P., MSPEA GP, MSPEA III GP, Morgan Stanley Private Equity Asia, Inc., and Morgan Stanley Private Equity Asia III, Inc. is deemed to be interested in the Shares held by MS IV.

(7) CDH Construct Limited ("CDH Construct"), a limited liability company incorporated in the British Virgin Islands ("BVI"), is a wholly-owned subsidiary of CDH China Fund III, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands focused on private equity investments in China. The general partner of CDH China Fund III, L.P. is CDH III Holdings Company Limited, a limited liability company organised and existing under the laws of the Cayman Islands. CDH III Holdings Company Limited is controlled as to 80% by China Diamond Holdings III, L.P., a limited partnership organised and existing under the laws of the BVI. The general partner of China Diamond Holdings III, L.P. is China Diamond Holdings Company Limited, which is incorporated in the BVI. Each of CDH China Fund III, L.P., CDH III Holdings Company Limited, China Diamond Holdings III, L.P. and China Diamond Holdings Company Limited is deemed to be interested in the Shares held by CDH Construct.

Save as disclosed above and so far as the Directors are aware of, as at the end of the Reporting Period, no person, other than Directors or the Chief Executives of the Company, had an interest or short position in the Shares or underlying Shares of the Company which would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register maintained pursuant to Section 336 of the SFO.

(2) Directors' and chief executives' interests in the Shares, underlying shares and debentures

As at 31 December 2008, the interests of Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) ("Associated Corporations"), which would be required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange"), pursuant to Divisions 7 and 8 and section 352 of Part XV of the SFO to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing of Rules of the Stock Exchange, were as follows:

Name of Director	Nature of interests	Shares	Number of Total	Percentage of Shares in issue as at 31 December 2008
Zhang Caikui	Ordinary share	871,736,400	871,736,400	32.27%

Note:

(1) The 871,736,400 Shares were held by China Shanshui Investment Company Limited ("Shanshui Investment"). Shanshui Investment is held as to approximately 65.55% by Mr. Zhang Caikui as a discretionary trustee of the Zhang Trust of which Mr Zhang himself is one of the beneficiaries.

Save as disclosed above, as at the end of the Reporting Period, none of the Directors or the Chief Executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

(3) Public float

Based on the information publicly available and to the knowledge of the Directors, the Company has been maintaining the public float required by the Listing Rules of the Stock Exchange up to the date of this report. As at 31 December 2008, the Company had a public float of 43.41% of the issued share capital.

4. PURCHASE, SALE AND REDEMPTION OF LISTED SHARES

As of 31 December 2008, neither the Company nor its subsidiaries purchased, sold or repurchased any listed shares of the Company.

5. CONVERTIBLE NOTES

On 21 September 2007, Convertible Notes in the respective principal amounts of US$10,138,287, US$3,554,021, US$4,107,692 and US$2,200,000 were issued to MS I, MS II,CDH Cement and IFC respectively by our Company. The above-mentioned holders of the Convertible Notes are not entitled to vote as the holders of Shares. The maturity date of the Convertible Notes is 2 July 2011, and its holders will be entitled to an interest payment payable simultaneously with any payment of dividend to the holders of the Shares. As for the number of conversion Shares. On conversion, the Convertible Notes will convert into 114,964,200 Shares at approximately US$0.17 or approximately HK$1.35 per Share.

The Convertible Notes may be transferred subject to compliance with the Listing Rules and all relevant laws, regulations and approvals. Any holder of the Convertible Notes shall have the right to exercise the conversion right at any time after (a) the earlier of (1) 21 September 2012, and (2) 6 months after the completion of the initial public offering of the shares in the Company (4 January 2009) or such longer period as the rules and regulations of the relevant stock exchange or securities commission may require; or (b) the occurrence of a default event. During the Reporting Period, the conversion rights of the Convertible Notes were not yet effective.

6. PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company ("Articles of Association") and the laws of the Cayman Islands, the Company is not required to offer to its existing shareholders the pre-emptive right to acquire new shares in proportion to their shareholdings.

7. TRANSACTIONS IN RELATION TO ITS OWN SECURITIES

Pursuant to the resolution passed by the Shareholders on 14 June 2008, the Share Option Scheme was conditionally adopted and took effect upon Listing. Since the adoption of the Share Option Scheme, as at the end of the Reporting Period, the Company had not granted any share options.

(V) Basic Information on Directors, Senior Management and Employees

1. BASIC INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Term of Office
ZHANG Caikui (張才奎)	Chairman, Executive Director and General Manager	M	58	1 July 2008-30 June 2011
LI Yanmin (李延民)	Executive Director, Deputy General Manager	M	60	1 July 2008-30 June 2011
DONG Chengtian (董承田)	Executive Director, Deputy General Manager	M	51	1 July 2008-30 June 2011
YU Yuchuan (于玉川)	Executive Director, Deputy General Manager and Chief Engineer	M	50	1 July 2008-30 June 2011
Homer SUN (孫弘)	Non-Executive Director	M	37	1 July 2008-30 June 2011
JIAO Shuge (焦樹閣)	Non-Executive Director	M	43	1 July 2008-30 June 2011
SUN Jianguo (孫建國)	Independent Non-Executive Director	M	54	1 July 2008-30 June 2011
WANG Yanmou (王燕謀)	Independent Non-Executive Director	M	76	1 July 2008-30 June 2011
WANG Jian (王堅)	Independent Non-Executive Director	M	53	1 July 2008-30 June 2011
ZHANG Bin (張斌)	Joint Company Secretary Deputy General Manager	M	30	1 July 2008-30 June 2011
LI Cheung Hung (李長虹)	Joint Company Secretary Qualified Accountant	M	58	1 July 2008-30 June 2011

(V) Basic Information on Directors, Senior Management and Employees

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. ZHANG Caikui（張才奎）, aged 58, is our Chairman, Executive Director, General Manager and founder of our Group, primarily responsible for the overall strategic planning and management of our Group. Mr. Zhang has over 35 years of experience in the cement industry and was appointed the head of Shandong Cement Plant (the predecessor of Shandong Cement Factory Co., Ltd.) in 1986. He has been the Executive Director and General Manager of Shandong Shanshui since August 2001. Over the years, Mr. Zhang has held a number of honourary titles, including Head of the Jinan Municipal Bureau (Association) of Building Materials (the "Jinan Building Materials Bureau") from November 1995 to August 2004; Vice President of the China Cement Association since October 2002 and Routine Director of the China Entrepreneur Association since September 2003. He was the Jinan deputy of the Tenth and Eleventh National People's Congress. He graduated from the University of Nankai with a Master's degree in Business Administration in December 2005. Mr. Zhang Caikui is the father of Mr. Zhang Bin, a senior member of our management staff and, one of our Joint Company Secretaries.

Mr. LI Yanmin（李延民）, aged 60, is our Executive Director and Deputy General Manager, primarily responsible for assisting Mr. Zhang Caikui in the overall strategic planning of our Group. He has over 25 years of experience in the cement industry, and joined Shandong Cement Plant in 1980, becoming deputy head in 1987. He has been Deputy General Manager of Shandong Shanshui since August 2001. Over the years, Mr. Li has held a number of honourary titles, including Deputy Head of the Jinan Building Materials Bureau from November 1997 to August 2004, and was named as a National Outstanding Entrepreneur in the Construction Materials Industry. Mr. Li graduated from Binzhou Teachers Training College in 1980.

Mr. DONG Chengtian（董承田）, aged 51, is our Executive Director and Deputy General Manager, primarily responsible for our Group's strategic planning and management in Liaoning Province. Mr. Dong has over 20 years of experience in the cement industry and joined Shandong Cement Plant in 1982. Mr. Dong was appointed Chief Engineer and Deputy Plant Manager of Shandong Cement Factory in 1996 and also served as head of research and development department of Shandong Cement Factory in 1997. He has been Deputy General Manager of Shandong Shanshui since 2001 and is primarily responsible for production management of our Group.In September 2007, Mr. Dong was assigned responsibility for our Group's strategic planning and management in Liaoning Province. Mr. Dong has also held the honourary title of Deputy Head of the Jinan Building Materials Bureau from March 2000 to August 2004. Mr. Dong graduated from Shanghai Tongji University in January 1982 with a Bachelor's degree in Cement Technologies.

Mr. YU Yuchuan（于玉川）, aged 50, is our Executive Director, Deputy General Manager and Chief Engineer, primarily responsible for production management. He has over 20 years of experience in cement technology and engineering. Mr. Yu joined Shandong Cement Plant in 1983, and was appointed Chief Engineer in 1995. He has been Deputy General Manager and Chief Engineer of Shandong Shanshui since August 2001. Mr. Yu is currently Vice President of the New Type Dry-Process Cement Association (a division under the Chinese Cement Association) and a visiting professor at the University of Jinan.

Non-Executive Directors

Mr. Homer SUN (孫弘), aged 37, is our Non-Executive Director. He joined our Group on 16 October 2006. He is currently a Managing Director of the Private Equity Division of Morgan Stanley Asia Limited. Mr. Sun has been with Morgan Stanley, and worked on mergers and acquisitions in Greater China in the Investment Banking Division prior to joining the Private Equity Division of Morgan Stanley. From September 1996 to March 2000, Mr. Sun was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong. Mr. Sun received a B.S.E. in Chemical Engineering, *magna cum laude*, from the University of Michigan in 1993 and a J.D., *cum laude*, from the University of Michigan Law School in 1996.

Mr. JIAO Shuge (alias JIAO Zhen) (焦樹閣), aged 43, is our Non-Executive Director. He joined our Group on 30 November 2005. He is currently a Managing Director of CDH China Fund L.P., and is a Non-Executive Director of China Yurun Food Group Company Limited, a company listed on the Hong Kong Stock Exchange (stock code 1068) and China Mengniu Dairy Company Limited, a company listed on the Hong Kong Stock Exchange (stock code 2319). From December 1995 to August 2002, Mr. Jiao was Deputy General Manager of the direct investment department of China International Capital Corporation Limited. From September 1989 to January 1995, he was a researcher with the Beijing Information and Control Research Institute. In addition to directorships in listed companies, Mr. Jiao has also been a director of various private companies. Mr. Jiao received a Bachelor's degree in Mathematics from Shandong University in 1986 and a Master's degree in Engineering from the Ministry of Space Industry Institute in 1989.

Independent Non-Executive Directors

Mr. SUN Jianguo (孫建國), aged 54, is our Independent Non-Executive Director. He is currently the Chairman of Shandong Construction and Real Estate Company Limited. In 1996, Mr. Sun was Deputy Head of Jinan Municipal Construction Committee and General Manager of Jinan Urban Construction, Investment and Development Corporation. He was also appointed General Manager of Shandong Shengli Company Limited in 1998.

Mr. WANG Yanmou (王燕謀), aged 76, is our Independent Non-Executive Director. Mr. Wang is currently an independent Non-Executive Director of Wuhu Conch Profiles and Science Company Limited, a company listed on the Shenzhen Stock Exchange (stock code 619) and Zhejiang Glass Company Limited, a company listed on the Hong Kong Stock Exchange (stock code 739). He is also on the Supervisory Board of Anhui Conch Cement Company Limited, a company listed on both the Hong Kong Stock Exchange (stock code 914) and the Shanghai Stock Exchange (stock code 600585) and a consultant of China International Construction Consulting Company and China Investment Association. Mr. Wang has been the Director of Zhejiang Glass Company Limited since October 2001. From November 1981 to April 1982, Mr. Wang was Head of Chinese Building Materials Science Research Institute and Head of National Building Materials Industry Bureau from February 1982 to May 1994. He was also Honourary President of the China Building Material Industry Association (now known as China Building Material Council) from April 2001 to October 2007. From May 1997 to May 2003, Mr. Wang served on the board of directors of Anhui Conch Cement Company Limited as an Independent Non-executive Director.

(V) Basic Information on Directors, Senior Management and Employees

Mr. WANG Jian（王堅）, aged 53, is our Independent Non-Executive Director. Mr. Wang is a senior accountant and a certified public accountant in the PRC. From 1996 to 2000, he was the Chief Accountant of Shandong Shengli Company Limited (stock code 407), or Shandong Shengli, a company listed on the Shenzhen Stock Exchange. From 2000 to 2003, he was the Deputy General Manager of Shandong Shengli. Mr. Wang left Shandong Shengli and joined a private company, Qilu Real Estate Company Limited, in May 2003.

Senior Management

Mr. ZHAO Yongkui（趙永魁）, aged 44, is our Deputy General Manager and Chief Financial Officer, primarily responsible for overseeing the accounting and finance aspects of our Group's operations and is in charge of our Group's finance department. Mr Zhao has over 28 years of experience in accounting and gained his experience from working in the cement industry and managing the finance of cement companies. Mr. Zhao joined Shandong Cement Plant as an accountant in July 1984. He was the Deputy General Accountant and Assistant to the Head of the Shandong Cement Plant in December 1990. In December 2001, he was appointed the Assistant to the General Manager and the Head of the finance department of our Group. In November 2005, Mr. Zhao was appointed Deputy General Manager of our Group. Mr. Zhao qualified as a Senior Accountant in 2003. Mr. Zhao graduated from the Shanghai Institute of Building Materials in July 1984.

Mr. LI Maohuan（李茂桓）, aged 60, is our Deputy General Manager, primarily responsible for the purchase of fuel for our Group's production. Mr. Li has over 40 years of experience in the building materials industry and gained his experience from working at and managing companies in this industry. Mr. Li started working at Jinan Cement Products Factory ("Jinan Cement") in July 1968 and was appointed as the Head of Jinan Cement Products Factory in September 1976. Mr. Li has been the Deputy General Manager of Shandong Shanshui since August 2001. Outside the Group, he was the Deputy Head of Jinan Building Materials Bureau from August 1988 to August 2004. Mr. Li graduated from the Party's School of Shandong Province with a Master's degree in Management in December 1996.

Mr. ZHAO Liping（趙利平）, aged 48, is our Deputy General Manager, primarily responsible for the sale of cement and clinker in our Group. He has 28 years of experience in the cement industry and gained his experience from working in the industry and managing cement companies. He joined Shandong Cement Plant in July 1980 as an engineer. He was appointed as the Deputy Head and the assistant to the Head of Shandong Cement Plant in June 1990. In December 2001, he was appointed as the Assistant to the General Manager and the General Manager of the sales unit of Shandong Shanshui. In July 2004, Mr. Zhao was appointed as the Deputy General Manager of Shandong Shanshui. He graduated from Shandong Jianshe Industry School in July 1980 with a Bachelor's degree.

Mr. GAO Zhenwu（高振武）, aged 58, is our Deputy General Manager, primarily responsible for human resources management of our Group. Mr. Gao has 38 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Gao joined our Group in November 1997 and was appointed as the Deputy General Manager of Shandong Shanshui in August 2001. Outside of our Group, from 1988 to 2004, he was the Director of the Jinan Building Materials Bureau. Mr. Gao graduated from the Party's School of Shandong Province in December 1997.

Mr. MI Jingtian（宓敬田）, aged 47, is our Deputy General Manager, primarily responsible for assisting Mr. Zhao Liping with the sale of cement and clinker of our Group. Mr. Mi has 28 years of experience in the building materials industry and gained his experience from managing several companies in the industry. Mr. Mi joined Shandong Shanshui in December 2001 as the assistant to the General Manager. In February 2004, he was appointed the Assistant to the General Manager, Deputy Secretary of Party branch of the sales department and the Deputy Manager. In August 2007, he was appointed Deputy General Manager of Shandong Shanshui and Deputy General Manager of the sales unit of Shandong Shanshui. Mr. Mi graduated from the Party's School of Jinan in June 1994 with a vocational degree.

Mr. ZHANG Bin（張斌）, aged 30, is our Deputy General Manager and the son of Mr. Zhang Caikui, our Chairman, Executive Director, General Manager and founder, primarily responsible for our Group's preparation for the Listing and disclosure of information of listed companies and investor relations, in charge of the Department of Securities Affairs. Mr. Zhang joined our Group in March 2006 and previously worked at Sinoma International Engineering Company Limited from December 2004 to March 2006. Mr. Zhang graduated from Shandong University of Science and Technology in July 2003. He was awarded a master degree by the Business Administration Faculty of Nankai University in September 2008.

Mr. CHEN Zhongsheng（陳仲聖）, aged 38, is our Deputy General Manager, primarily responsible for the technological and engineering aspects of our Group's operations. Mr. Chen has 14 years of experience in the cement industry and gained his experience from working in and managing several cement companies. Mr. Chen joined Shandong Cement Plant in August 1994 and has been responsible for the technological and engineering aspects of our Group's operations as the Deputy Chief Engineer and the Deputy Head of the technology centre of our Group. He was appointed the Deputy General Manager of Shandong Shanshui in November 2007. Mr. Chen has, since 2000, published a number of academic papers in national journals such as Cement Engineering Journal. He was also appointed the Vice President of the Professional Cement and Concrete Division of the Shandong Silicate Association in March 2007. Mr. Chen graduated from the Shandong Building Materials Technical School with a Bachelor's degree in Silicate Engineering in July 1994.

Joint Company Secretaries and Qualified Accountant

Mr. LI Cheung Hung（李長虹）, aged 58, is one of our Joint Company Secretaries and Qualified Accountant. Mr. Li is ordinarily resident in Hong Kong and joined our Group in January 2006. Mr. Li is employed by us on a full-time basis and is a member of our senior management in accordance with Rule 3.24 of the Listing Rules. Mr. Li has over 20 years of experience in accounting and finance. Prior to joining our Group, Mr. Li held various positions with companies and listed companies in Hong Kong, such as subsidiaries of Royal Dutch Shell Group in the PRC and Hong Kong, Neo-Neon Holdings Limited and Top Form International Limited. Mr. Li holds a Master's degree in Business Administration jointly offered by the business schools of the University of Manchester and the University of Wales. Mr. Li is a fellow member of both The Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. He is also an associate of both the Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. ZHANG Bin（張斌）, aged 30, is one of our Joint Company Secretaries. His biographical details are set out above under the paragraph headed "Senior Management".

2. APPOINTMENT OR RETIREMENT OF DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The General Meeting of the Company, which was held on 14 June 2008, approved the appointment of Mr. ZHANG Caikui, Mr. LI Yanmin, Mr. DONG Chengtian and Mr. YU Yuchuan as the Executive Directors of the Company; Mr. Homer SUN and Mr. JIAO Shuge as the Non-Executive Directors; Mr. SUN Jianguo, Mr. WANG Yanmou and Mr. WANG Jian as the Independent Non-Executive Directors of the Company for a term of office of three years commencing from 1 July 2008.

Commencing from the date of our listing up to the end of the Reporting Period, no appointment or retirement of the Directors and senior management of the Company occurred.

3. THE SERVICE CONTRACTS AND THE INTEREST OF CONTRACTS OF DIRECTORS

Each of ZHANG Caikui, LI Yanmin, DONG Chengtian and YU Yuchuan, being all of our Executive Directors, has entered into a service contract with our Company on 14 June 2008 for a term of three years commencing 1 July 2008, subject to termination before expiry by either party giving not less than three months' notice in writing to the other, provided that such termination shall not occur during the first 12 months of the contract. Under these service contracts, each of ZHANG Caikui, LI Yanmin, DONG Chengtian and YU Yuchuan will receive an annual salary (including any director's fees) of RMB5 million, RMB3.6 million, RMB3 million and RMB2.8 million, respectively (such annual salary is subject to annual review by our Board and the Remuneration Committee) and in the case of ZHANG Caikui, the amount of his management bonus is calculated with reference to the set performance target of our Group (in terms of audited consolidated net profits of our Group after taxation and minority interests but before extraordinary items ("Net Profits") as our Board may approve and shall be 10% of the portion of the Net Profits of our Group which is over and above the set performance target of our Group in any given year. Such Executive Director shall abstain from voting, and not be counted in the quorum, in respect of any resolution of our board approving the determination of the salary, bonus and other benefits payable to him or her.

Each of Homer SUN and JIAO Shuge, being our Non-Executive Directors, has entered into a letter of appointment with our Company on 14 June 2008. Each letter of appointment is for an initial term of one year commencing from 1 July 2008, and shall continue thereafter subject to a maximum of three years unless terminated by either party giving at least one month's notice in writing. The Non-Executive Directors will not receive any remuneration from our Company.

Each of SUN Jianguo, WANG Yanmou and WANG Jian, being our Independent Non-Executive Directors, has entered into a letter of appointment with our Company on 14 June 2008. Each letter of appointment is for an initial term of one year commencing from 1 July 2008, and shall continue thereafter subject to a maximum of three years unless terminated by either party giving at least one month's notice in writing. The annual fee for each Independent Non-Executive Director is RMB100,000.

Save as disclosed above, none of our Directors has or is proposed to have a service contract with any member of our Group.

During the Reporting Period, none of the Directors or senior management of the Company had any material interest in any contract entered into by the Company or its subsidiaries.

4. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT FOR THE YEAR

During the Reporting Period, please refer to Note 8 to the financial statements prepared in accordance with IFRS in this annual report for details of the remuneration of Directors and senior management of the Group.

5. HIGHEST PAID INDIVIDUALS

During the Reporting Period, please refer to Note 9 to the financial statements prepared in accordance with IFRS in this annual report for details of the remuneration of the five highest paid individuals of the Group.

6. EMPLOYEES

As at 31 December 2008, the Group employed 12,388 employees (8,183 were in Shandong Province, 4,205 were in Liaoning Province), of which 7,422 were production staff members, 778 were sales staff members, 1,003 were technical staff members, 777 were finance staff members, 1,155 were administrative and management staff members, and 1,253 were other staff. 8,292 of the employees had secondary and higher education, of which 2,445 received tertiary education or above. The aggregate remuneration of the employees of the Group for the year amounted to RMB412.5 million. For expenses related to employees who have resigned or retired, please refer to Note 29 to the financial statements prepared in accordance with IFRS in this annual report.

7. PENSION INSURANCE

Details of the pension insurance are set out in Note 6 to the financial statements prepared in accordance with IFRS. Pension booked in the income statement of the Group for the year ended 31 December 2008 amounted to RMB40.63 million.

8. STAFF HOUSING

Pursuant to the relevant regulations of the PRC government, contributions based on a certain percentage of the employees' salaries shall be made by the Group to the housing welfare fund. Save for this, the Group has no other responsibilities nor any plan for provision of staff housing. For the year ended 31 December 2008, the total housing welfare fund paid by the Group amounted to approximately RMB8.98 million.

(VI) Report On Corporate Governance

1. CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, except for the candidate for the Chairman and General Manager (VI.4 of this report), the Board of the Company was not aware of any information which would indicate that the Company did not comply with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Stock Exchange since the listing of the Shares on the Stock Exchange ("Listing").

2. MODEL CODE

The Company has adopted a set of code of practice with standards not lower than those prescribed in the Model Code as set out in Appendix 10 to the Listing Rules of the Stock Exchange regarding securities transactions by Directors ("Model Code"). Having made specific enquiries with the Directors, the Company understands that they have complied with the required standard regarding securities transactions by the Directors as set out in the Model Code since Listing.

3. THE BOARD

Composition of the Board is as follows:

Name	**Position**
ZHANG Caikui	Chairman, Executive Director and General Manager
LI Yanmin	Executive Director, Deputy General Manager
DONG Chengtian	Executive Director, Deputy General Manager
YU Yuchuan	Executive Director, Deputy General Manager and Chief Engineer
Homer SUN	Non-executive Director
JIAO Shuge	Non-executive Director
SUN Jianguo	Independent Non-executive Director
WANG Yanmou	Independent Non-executive Director
WANG Jian	Independent Non-executive Director

There is no financial, business or other material relationship between members of the Board.

During the Reporting Period, 2 meetings of the Board were held on-site, the attendance rates of the Directors are as follows:

Name	Attendance (%)
ZHANG Caikui	100%
LI Yanmin	100%
DONG Chengtian	100%
YU Yuchuan	100%
Homer SUN	100%
JIAO Shuge	50%
SUN Jianguo	100%
WANG Yanmou	100%
WANG Jian	100%

Furthermore, the Board has voted on the relevant resolutions by means of communication and written resolutions during the Reporting Period, the voting rates of the Directors are as follows:

Name	Voting rate (%)
ZHANG Caikui	100%
LI Yanmin	100%
DONG Chengtian	100%
YU Yuchuan	100%
Homer SUN	100%
JIAO Shuge	100%
SUN Jianguo	100%
WANG Yanmou	100%
WANG Jian	100%

During the Reporting Period, the Board exercised its powers pursuant to Chapters 16, 17 and 18 of the Articles, and the management exercised its powers pursuant to Chapter 19 of the Articles. Please refer to "Report of the Directors" of the annual report for details of the work of the Board.

4. CHAIRMAN AND GENERAL MANAGER

The position of Chairman of the Company is filled by Mr. ZHANG Caikui.

The principal duties of the Chairman of the Board are: (a) to lead the Board and ensure that the Board operates effectively and performs its duties and discusses any significant and appropriate matters on a timely basis; (b) to ensure that all the Directors at the meetings of the Board are properly informed of the current affairs; and (c) to ensure that the Directors receive sufficient information, which are complete and reliable, on a timely basis.

The position of General Manager of the Company is filled by Mr. ZHANG Caikui.

The roles of Chairman and General Manager are not separate because the Board of the Company is of the opinion that it is beneficial to the management structure of the Company and in the best interests of the shareholders to have these two roles performed by the same individual. As Mr. ZHANG Caikui has over 35 years of experience in the cement industry and is primarily responsible for the overall strategic planning and management of our Group, the Board made the above arrangement based on the working experience and leadership of Mr. ZHANG Caikui.

5. TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

For the tenure of Independent Non-Executive Directors, please refer to the aforementioned section "1. Basic information on Directors and senior management" of "BASIC INFORMATION ON DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES". The Company has received the confirmation letters from Mr. SUN Jianguo, Mr. WANG Yanmou and Mr. WANG Jian, being independent non-executive Directors, pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange in respect of their independence for the year. The Company concurs with their independence.

6. REMUNERATION OF DIRECTORS

Pursuant to the Listing Rules of the Stock Exchange, the Board of the Company has established the Remuneration Committee under the Board, which is principally responsible for formulating the remuneration policy for the Executive Directors and senior management of the Company, determining the remuneration proposal for the above people. The Remuneration Committee is a standing committee under the Board, which is accountable to the Board.

Members of the Remuneration Committee of the first session of the Board of the Company were Mr. SUN Jianguo, Mr. WANG Yanmou and Mr. WANG Jian, of which Mr. SUN Jianguo was the chairman.

During the Reporting Period, please refer to "The service contracts and the interest of contracts of directors" (V.3 of this report) for details of the remuneration of the Directors of the Company.

On 29 January 2009, the Remuneration Committee of the Company proposed the "Proposal regarding Awarding Medals and Bonus for 2008 to the Board of Directors", to perform its responsibility in accordance with the rules of the Remuneration Committee.

The Remuneration Committee of the Company held a meeting on 16 April 2009. All committee members attended the meeting. The committee considered and approved the resolution for the remuneration of the senior management to be approved by the Board.

7. AUDIT COMMITTEE OF THE BOARD

The Board of the Company has established the Audit Committee under the Board pursuant to the Listing Rules of the Stock Exchange to monitor the independence and work efficiency of external auditors, the financial reporting procedures and the efficiency of the internal control system of the Company, in order to assist in the work of the Board. The Audit Committee is a standing organisation under the Board and is accountable to the Board.

The Audit Committee of the first session of the Board of the Company comprised Mr. WANG Yanmou, Mr. SUN Jianguo and Mr. WANG Jian, of which Mr. WANG Yanmou being the Chairman.

During the Reporting Period, the Audit Committee held one meeting, which was attended by all of the committee members:

At the meeting on 2 September 2008, the Audit Committee considered and approved (i) the unaudited interim (half-year) financial statements for 2008 prepared in accordance with IFRS; (ii) KPMG audit service scope in accordance with *The Proposal for Audit Service*; and (iii) the Audit Engagement Letter.

On 23 February 2009, Joint Company Secretaries of the Company, notified the Audit Committee of the detailed schedule in respect of the audit of the annual report timely.

At the meeting on 16 April 2009, the Audit Committee considered and approved the following resolutions: (i) the financial report for 2008 made by the financial controller of the Company; (ii) the annual financial statements of the Company as at 31 December 2008 prepared in accordance with IFRS, and the audit report for 2008 submitted by KPMG; (iii) the management letter submitted by KPMG; (iv) the connected transactions of the Company occurring in 2008; (v) the fixed capital expenditure budget for 2009 of the Company; (vi) loan facilities granted to the Company by banks in 2009; (vii) the recommendation to the Board to re-appoint KPMG as the auditor of the Company in 2009.

The Audit Committee made an objective assessment on the work conducted by KPMG: During the process of conducting the audit of Shanshui Cement for 2008, KPMG was able to adhere strictly to Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and other regulations in performing its audit and was able to perform its audit functions well. Accordingly, it is proposed to the Board that KPMG be re-appointed as the auditor of the Company in 2009.

The above proposal is to be considered and approved at the annual general meeting for 2008 by the Board.

8. AUDITORS AND REMUNERATION

Pursuant to the proposal from the Audit Committee of the Board of the Company, the Company engaged KPMG as the auditor of the Company and two Hong Kong subsidiaries of the Company for the year ended 31 December 2008. The annual audit remuneration payable to KPMG by the Company and its subsidiaries for the year ended 31 December 2008 amounted to RMB6 million and HKD136,000 respectively. In addition, the Company was required to reimburse KPMG for lodging and travelling expenses incurred for on-site auditing.

During the Reporting Period, other than providing audit services to the Company, KPMG did not provide other significant non-audit services to the Company.

9. ESTABLISHMENT AND SOUNDNESS OF INTERNAL CONTROL SYSTEM

Since the listing of the Group, pursuant to the requirements of the Company Law, the Articles of the Company, the requirements of the Hong Kong Stock Exchange and relevant laws and regulations, with an aim to establish a comprehensive corporate governance structure and speed up the transformation of internal management, the Group has amended the original nine key process systems and issued the "Circular on the Promulgation and Thorough Implementation of the Nine Key Management Process Systems for Realising Management Systematisation and Standardisation". It also organised seminars and trainings on systems involving the management and professional supervisors of the Group's headquarters and its subsidiaries in accordance with the layering and classification principles. During the period, the audit and compliance department of the Group proceeded with supervision and examination on the establishment, soundness and implementation of the internal control system, and ensured the effective implementation of the internal control system and the continued improvement of the risk management standard and operation quality through regular or irregular special audits on the operating activities of the Group. Details are as follows:

(1) Production management: The Group implements a stringent product planning system for production target setting up, implementation and result analysis. After scientific measurement and communication and verification with its subsidiaries, the Group will issue annual and monthly production plans on a unified basis. In accordance with real-time statistical data generated by the production digital system, the monitoring centre at the Group's headquarters is responsible for daily reporting, weekly dispatch and monthly analysis. The technology centre is responsible for providing necessary technical consultation to ensure the smooth implementation of the production plan.

(2) Equipment management: The Group has established a sound equipment examination and overhaul process system. The overhaul of small equipment of subsidiaries will be carried out by themselves after demonstration and approval. The overhaul of large equipment shall be carried out after demonstration and approval by the headquarters of the Group and the strict acceptance procedures are implemented. The Group's headquarters and the technical departments of its subsidiaries monitor data on the operation of equipment so as to effectively prevent equipment accident risks.

(3) Quality control: The Group strictly enforces national quality standards, develops quality control standards for all production processes on a unified basis, retains professional technical management talents, implements real-time quality control and has established a sound product quality control system. The Group has also established a central laboratory for quality sampling inspection of its subsidiaries and new product research and development to ensure products of the Group attaining national standards.

(4) Financial management: The Group implements a comprehensive budget management system, formulates a set of unified financial management policy and procedures and implements a financial chief appointment system to ensure financial independence. It also implements a centralised cash management system. All fundings have to be approved by the Group's headquarters and funding channels are arranged on a unified basis. The Group implements a strict funding approval procedure. The Group's Financial Management Department supervises the use of fund through the funding settlement centre to control financial risks. The Group has kept improving the perpetual inventory system to warrant the truthfulness of stock data. The Group also warrants that its financial statements have complied with the preparation requirements of IFRS and have given a true and fair view of its financial position by providing to the Board of the Company a management representation letter signed by general managers and financial chiefs of subsidiaries of the Company.

(5) Material purchasing management: The Group has established a set of sound material purchasing procedures to implement unified bidding and to make purchases by comparing quality and prices for bulk raw materials such as coal and general spare parts. The Group and its subsidiaries control material purchasing risks by monitoring quality, price, inventory and payment through the "one vehicle one inspection, one vehicle one settlement" system for raw materials and the intelligent storage management system for spare parts.

(6) Sales management: The Company implements a unified policy for regional market development, product pricing and sales, and has been implementing a "no credit, no debt" selling policy to ordinary customers not belonged to major accounts. The sales centre of the Group monitors the status in respect of invoicing, goods delivery and pricing of its subsidiaries through the intelligent sales system, and collects market information and customer feedbacks to the Group and its subsidiaries for the quality improvement of product and sales service and the continued enhancement of the brand influence of cement products of the Group.

(7) Project investment management: The Group formulates medium-to-long-term development strategic plans on a unified basis and conducts discussions and demonstrations on newly constructed and acquired projects and submits them for approval by the Board of the Group on a unified basis prior to implementation. During the period, by adhering to the principle of "low investment, short completion time, attaining standard swiftly", the technical centre at the Group's headquarters was responsible for the design and debugging of projects; the investment and development department was responsible for unified bidding in respect of equipment and works construction management; the audit department was responsible for the auditing of project budgets and final accounts so as to effectively evade investment risks.

(8) Human resources management: Pursuant to the "Labour Contract Law" which came into effect on 1 January 2008, the Group has amended and improved the original contract management system, employment system, work and rest system and appraisal, rewards and punishment system, and has developed staffing and wage standards on a unified basis for its subsidiaries. The human resources department at the Group's headquarters has implemented supervision to control employment risks. The Group implements a unified talent recruitment and development plan and has established and improved the staff training system. Besides, it has adopted an approach of assessing and promoting its staff based on their work ethics and work performance to further enhance cohesiveness of staff, thereby providing manpower and intellectual support for the healthy and rapid development of the Group.

From now onwards, the Group will continually improve the establishment and implementation of the internal control system by reference to the guidelines of the Stock Exchange concerning the internal control system of listed companies.

(VII) Management Discussion and Analysis

OPERATING ENVIRONMENT

During the first half of 2008, China experienced historically rare natural disasters; firstly, severe snowstorms and cold weather, and then a disastrous earthquake in Sichuan Province. Meanwhile, the international economic environment faced a severe downturn with the continuous depreciation of the US dollar, notable slowing of world economic growth, and soaring prices for international crude oil, iron ore, food, etc. Under severe conditions domestically and internationally, the Chinese central government adopted forceful counter measures to strengthen and improve macroeconomic control, actively pushing ahead necessary economic reforms, thereby maintaining continuous and steady economic growth. In the first half of 2008, China's economic growth rate was 10.4%, higher than the average rate of economic growth rate for the past 30 years. In the second half of 2008, the international financial crisis triggered by the US subprime mortgage crisis intensified further, and spread from the notional economy to the real economy. The economy of many countries deteriorated, and even exhibited signs of recession. The impact of the international financial crisis was larger on the real economy in China. In the fourth quarter of 2008, the economic crisis spread rapidly from small and medium sized businesses to medium and large sized businesses, from the export sector to other sectors, and from the coastal areas in the Eastern regions to inland areas. Facing such a severe and complex circumstances, the central government, adjusted its control on the macroeconomy, and announced a series of positive fiscal and monetary policies aimed at expanding domestic demand, increasing investments and maintaining growth. The GDP growth rate decreased to 6.8% in the fourth quarter of 2008. On a full year basis, China's economy in 2008 nevertheless maintained a steady growth rate at 9.0%. Whilst 2.4% slower than 2007 on a year-on-year basis, the 9.0% growth rate was still higher than other major economies around the world. (Source: National Bureau of Statistics of China)

Data from the National Bureau of Statistics revealed that total Chinese annual fixed asset investment in 2008 was RMB17.23 trillion, representing an increase of 25.5% over 2007, and the year-on-year growth was 0.7 percentage point faster than achieved in 2007. Fixed asset investment in towns was RMB14.82 trillion, representing an increase of 26.1%, and the year-on-year growth was 0.3 percentage point faster than achieved in 2007. Fixed asset investment in villages was RMB2.41 trillion, representing an increase of 21.5% over 2007.

OPERATING CONDITIONS OF THE CEMENT INDUSTRY

In 2008, the overall trend of the cement industry in China could be summarised as "slower growth and declining prosperity". According to the statistic data, annual cement production in 2008 was 1.40 billion tonnes, representing an increase of 2.81% year-on-year compared to 2007. As such, the cement industry was able to maintain a positive growth rate despite the declining economy.

In 2008, the central government continued to proceed with industry reforms, energy saving and emissions reduction policies, and as a result, the pace of elimination of obsolete vertical kilns production capacity accelerated. The proportion of new dry process cement and industry concentration were further increased. In 2008, approximately 53 million tonnes of obsolete production capacity was eliminated nationwide, and the proportion of new dry process clinker increased to 61%. The production capacity of the top 18 largest cement producers accounted for 36% of industry capacity. The supply and demand dynamics of the cement industry in Shandong and Liaoning Provinces improved further. Shandong Province eliminated 14.58 million tonnes of obsolete production capacity, and the proportion of new dry process cement production capacity exceeded 50%. Liaoning Province eliminated 65 small sized cement producers, equivalent to 9.03 million tonnes of production capacity, ahead of the State's target closure of 7 million tonnes by end of 2010. The elimination of obsolete vertical kilns production capacity provided new opportunities for the development of new dry process cement. In 2008, investment in the cement industry was not affected by the declining economic conditions; the accumulated investment for the full year surpassed the RMB100 billion level to RMB105.15 billion, representing an increase of 60.76% as compared to 2007. (Source: China Building Materials Information website (中國建材信息總網), China Digital Cement website (中國數字水泥網), Government Working Reports of Shandong Province and Liaoning Province 2009)

ANALYSIS OF COMPANY OPERATING CONDITIONS

Operations Review

In 2008, the Group closely monitored domestic economic conditions in the PRC, and captured the opportunity offered by the accelerated structural adjustments in the cement industry, and by the relatively stable demand in the cement market. Through sound judgment and timely actions, the Group's production and sales volume of cement and clinker achieved higher growth, and operating revenue and profit, attained historical peak levels.

During the Reporting Period, the Group mitigated the adverse impact brought on by the rising prices of coal and power through the optimisation of industrial processes, by the enhancement of management standards, and by fully utilising the advantages of the residual heat power generation stations, and so ensured all economic technical indicators remained in leading positions of the industry.

During the Reporting Period, the Group increased investments in construction projects related to its core cement business. Investments were made in Shandong Province and Liaoning Province for the construction of a number of new cement clinker production lines, ancillary cement grinding production lines, and residual heat power generation facilities. Furthermore, the Group continued to enhance its leading market positions in the cement industry of Shandong Province and Liaoning Province, improving its production facilities and increasing the efficiency of its sales network, as well as by gaining more influence in the market.

During the Reporting Period, the Group proceeded further in restructuring the corporate internal management through systematically consolidating the production, operations and management of the acquired businesses. By following the principles of unified process, unified system, unified operation and unified appraisal practically, the organisational structure was optimised, the production and sales system was adjusted, and the overall operational quality and economic effectiveness of the Group were enhanced.

During the Reporting Period, the Group's operating revenue prepared in accordance with IFRS was RMB7.50 billion, representing an increase of 81.0% compared to 2007, net profit attributable to equity holders of the Company was RMB539 million, and earnings per share were RMB0.23.

(VII) Management Discussion and Analysis

Business Review

In 2008, the Group continued to execute on its strategy, expanding its principal business in cement via the implementation of construction projects. Whilst expanding production capacity, attention was also paid to the changes in the macroeconomic trends and market environment. Selling prices of products were raised in a timely fashion, resulting in large growth in sales revenue and profit. Meanwhile, the Group alleviated cost pressures brought by rising prices of coal and power through cost saving measures such as the construction of residual heat power generation facilities, the implementation of frequency conversion technology reforms, the increase in intensity of fundamental management, etc., and by enhancing the steady improvement of the Group's overall operation efficiency.

During the Reporting Period, the Group's production and sales volume of clinker and cement, operating revenue and profit achieved a high rate of year-on-year growth. During the Reporting Period, the Group's total production of clinker was 21.22 million tonnes, an 52.7% year-on-year increase; production of cement was 25.32 million tonnes, a 46.8% year-on-year increase ; realised sales revenue was RMB7.50 billion, an 81.0% year-on-year increase; and profit for the period was RMB549 million, an 155.9% year-on-year increase. Profit margin for the period was 7.3%.

During the Reporting Period, the Group carried out the systematic integration of the production, operations and management of 5 businesses in Liaoning and Shandong acquired at the end of 2007. The Group substantially improved their production process and economic efficiency, enabling them to be integrated into the Group's overall strategic plan to open up and strengthen the Group's markets in Eastern Shandong and Northeastern China. In 2008, these five cement production businesses were operating well, resulting in substantial improvements in all major economic and technical indicators. Among these businesses, the revenue of the businesses acquired in Northeastern China increased by RMB901 million, representing 12.0% of the total revenue of the Group in 2008; the newly acquired businesses in Shandong contributed RMB1,363 million to the net increase in revenue, representing 18.2% of total revenue.

During the Reporting Period, the Group increased investments in project construction for its core cement business. In Shandong and Liaoning Provinces, of RMB2 billion investment projects were completed, 2 clinker production lines with a daily production capacity of 4,000 tonnes each, one cement grinding production lines and one set of residual heat power generators were completed as scheduled and commenced operation. Additionally, 3 clinker production lines with a daily production capacity of 4,000 tonnes, 4,600 tonnes and 5,000 tonnes respectively, 8 cement grinding production lines and 5 sets of residual heat power generators were completed or under construction. The integration of the acquired businesses and the newly established production capacity will continue to strengthen the market leadership of our Group in the cement industry in Shandong and Liaoning Provinces, allowing the Group to gain more influence in the market, as well as improving the control over the mining resources and end-user markets.

As at the end of 2008, the Group's clinker production capacity was 20.04 million tonnes, cement production capacity was 35.84 million tonnes, total installed capacity of residual heat power generators was 68,500 KW.

I. *Business Analysis*

(1) **Sales revenue analysis together with the respective year-on-year changes**

(Unit: RMB million)

Product	2008 Sales revenue	2008 Sales proportion (%)	2007 Sales revenue	2007 Sales proportion (%)	Sales revenue Change (%)
Cement	**5,906.8**	**78.7**	3,158.3	76.2	87.0
Clinker	**1,169.2**	**15.6**	749.9	18.1	55.9
Others	**424.7**	**5.7**	236.3	5.7	79.7
Total	**7,500.7**	**100.0**	4,144.5	100.0	81.0

During the Reporting Period, the growth in the Group's sales revenue was attributable to an increase in selling price and sales volume. With regards to revenue breakdown by products, revenue from clinker amounted to RMB1.17 billion, representing a year-on-year growth of 55.9%, and revenue from cement amounted to RMB5.91 billion, representing a year-on-year growth of 87.0%.

(2) **Sales volume, unit selling price of products and their year-on-year changes**

a) Comparison of sales volume and unit selling price for the Group

Product	2008 Sales volume ('000 tonnes)	2007 Sales volume ('000 tonnes)	Sales volume Change %	2008 Unit selling price (RMB/ tonne)	2007 Unit selling price (RMB/ tonne)	Selling price Change %
Cement	**25,112**	17,235	45.7	**235.2**	183.2	28.4
Clinker	**5,466**	4,510	21.2	**213.9**	166.3	28.6

b) Comparison of unit selling price between Shandong and Northeastern China

Region	Average unit selling price in 2008 (RMB/tonne)	Average unit selling price in 2007 (RMB/tonne)	Change in selling price (%)
Shandong areas	**233.0**	183.2	27.2
Northeastern China	**249.5**	—	—

Note: The completion date for the acquisition of Liaoning Gongyuan Cement and Qianshan Cement was 28 December 2007, therefore data on the average unit selling price in 2007 was not available.

c) Comparison of sales volume and sales proportion between high and low grade cement products

	2008		2007		Change in
	Sales volume ('000 tonnes)	**Sales proportion (%)**	Sales volume ('000 tonnes)	Sales proportion (%)	sales proportion (%)
High grade cement	**9,964**	**39.7**	4,823	28.0	11.7
Low grade cement	**15,148**	**60.3**	12,412	72.0	-11.7

Note: High grade cement refers to products with compressive strength equal to or higher than 42.5 megapascals (MPa).

During the Reporting Period, the Group continued to implement the "dual specialisation" sales strategies of city specialisation and village franchising in order to realise a higher increase in product sales volume and to achieve greater influence on pricing. In 2008, the Company's cement sales volume was 25.112 million tonnes, an increase of 45.7% year-on-year. Sales volume of clinker was 5.466 million tonnes, an increase of 21.2% year-on-year. This was mainly attributable to factors such as the continued growth in domestic infrastructure construction, and to the acceleration of the rate of elimination of vertical kilns in the PRC in 2008.

Benefiting from its strong regional position in the cement market in Shandong Province, from the improved cement industry structure in the province, and from the favourable demand and supply conditions, the Group was able to increase its average unit selling price significantly to RMB233.0, representing a growth rate of 27.2% year-on-year.

Apart from the factors contributing to the general rise in cement price, the increase in the average selling price was also the beneficial result of an increase in the proportion of sales from high grade cement. In 2008, the proportion of sales volume from high grade cement increased from 28.3% in the first quarter to 49.1% in the fourth quarter, and the annual aggregated proportion of total sales volume was approximately 39.7%, representing an increase of 11.7 percentage points compared to 2007.

(3) **Analysis of sales revenue by region and the respective year-on-year changes**

(Unit: RMB'000)

Region	**2008** Sales revenue	**2008** Sales proportion (%)	2007 Sales revenue	2007 Sales proportion (%)	Sales revenue Change (%)
Shandong areas	**6,599,468**	**88.0**	4,144,552	100%	59.2
Northeastern China	**901,293**	**12.0**	—	—	—
Total	**7,500,761**	**100**	4,144,552	100%	81.0

During the Reporting Period, the Group's total sales volume of cement and clinker was 30.578 million tonnes, an increase of 40.6% year-on-year. In 2008, the Group focused on market trend analysis, capturing opportunities arising from increased demand due to the construction of national infrastructure and new rural villages, from the actively developing domestic markets, and from capturing changes in demand at different market stages, while ensuring making the best of production capacity and the maximisation of market share, and from increased sales volume and selling prices.

II. *Profit Analysis*

(1) **Key profit and loss items and their respective changes**

(Unit: RMB'000)

	2008	2007	Change (%)
Revenue	**7,500,761**	4,144,552	81.0
Gross profit	**1,586,448**	771,681	105.6
Profit from operations	**1,025,448**	431,907	137.4
Profit before taxation	**712,995**	263,069	171.0
Profit for the year	**549,211**	214,579	155.9
Profit attributable to equity holders of the Company	**539,357**	211,948	154.5
Net cash generated from operating activities	**1,037,261**	323,898	220.2

During the Reporting Period, the Group recorded sales revenue of RMB7.50 billion, representing an increase of 81.0% year-on-year; profit from operations was RMB1.03 billion, representing an increase of 137.4% year-on-year; profit for the year was RMB549 million, representing an increase of 155.9% year-on-year; profit attributable to equity holders of the Company was RMB539 million, representing an increase of 154.5% year-on-year.

The increase in profit was mainly attributable to the increase in average selling price and sales volume, as well as to the effective cost control. The rate of increase in the Company's cement prices was greater than the impact of rising coal prices on the costs of clinker and cement; therefore, gross profit margin increased to 21.2%, representing an increase of 2.6 percentage points as compared to 2007. Additionally, the increased operation rate of the rotary kiln (operation rate increased by 2.7% year-on-year) resulted in a significant increase in production and sales volume and hence a reduction in the fixed cost, per tonne of production.

Net cash generated from operating activities was RMB1.04 billion, an increase of 220.2% year-on-year, which was attributable to the beneficial effects of the expanded size of the principal business and the favourable market environment, plus implementation of "no credit, no debt" selling policy to ordinary customers not belonged to major accounts.

(2) **Comparison analysis of the proportion of cost of sales to revenue**

(Unit: RMB'000)

Cost of sales	**2008 Amount**	**2008 Proportion to revenue (%)**	2007 Amount	2007 Proportion to revenue (%)	Change of proportion to revenue (%)
Raw materials	**1,418,986**	**18.9**	1,165,939	28.1	-9.2
Coal	**2,165,375**	**28.9**	923,075	22.3	6.6
Power	**1,042,215**	**13.9**	729,152	17.6	-3.7
Depreciation and amortisation	**460,335**	**6.1**	242,154	5.8	0.3
Others	**827,402**	**11.0**	312,551	7.6	3.4
Total cost of sales	**5,914,313**	**78.8**	3,372,871	81.4	-2.6

During the Reporting Period, the proportion of the Group's total cost of sales to revenue was 78.8%, a decrease of 2.6% year-on-year, of which, the proportion of coal expenses to revenue was 28.9%, representing an increase of 6.6 percentage points. This was mainly attributable to the increased average unit purchase price of coal to RMB680.1/tonne in 2008, representing an increase of 54.5% compared to the RMB440.1/tonne in 2007.

On cost savings, the output of residual heat power generation was 463 million KWH, and the power cost savings were RMB0.35/KWH, reducing the clinker cost by approximately RMB163.90 million. As at the end of the Reporting Period, the accumulated power of the total installed capacity of the reformed high-tension frequency conversion fan turbines was 66,710KW, and the average power saving rate was 21.6%, with an annual power saving of approximately 97.87 million KWH, and a cost saving of approximately RMB53.83 million. This has effectively relieved the pressure from rising coal price on production costs.

(VII) Management Discussion and Analysis

Financial Review

(1) Expenses during the year

(Unit: RMB'000)

	2008 Amount	2007 Amount	**2008 Proportion to sales revenue (%)**	2007 Proportion to sales revenue (%)	Proportion to sales revenue changes (%)
Sales and marketing expenses	**175,213**	156,756	**2.34**	3.78	-1.44
Administrative expenses	**553,251**	262,887	**7.38**	6.34	1.04
Net finance expenses	**312,453**	168,838	**4.17**	4.07	0.10
Total	**1,040,917**	588,481	**13.89**	14.19	-0.30

During the Reporting Period, all expenses of the Group were more tightly controlled. The proportion of sales and marketing expenses to sales revenue declined compared to 2007, as a result of the beneficial effect of the higher growth in sales volume. Given an increase in loan facilities, the proportion of finance expenses to sales revenue was generally the same as for 2007. The interest coverage was 2.9 times, an increase of 0.8 times compared to the 2.1 times for 2007. The proportion of administrative expenses increased, mainly due to the higher costs incurred in the newly acquired businesses in Northeastern China at the end of 2007.

(2) Changes in balance sheet items

(Unit: RMB'000)

	31 December 2008	31 December 2007	Change (%)
Non-current assets	**9,666,557**	7,712,680	25.3
Current assets	**3,106,060**	2,569,189	20.9
Total assets	**12,772,617**	10,281,869	24.2
Current Liabilities	**5,185,577**	5,046,067	2.8
Non-current liabilities	**2,981,491**	2,662,824	12.0
Minority interest	**44,978**	41,485	8.4
Equity attributable to equity holders of the Company	**4,560,571**	2,531,493	80.2
Total Liabilities and Equity	**12,772,617**	10,281,869	24.2

As at 31 December 2008, the Group's total assets were RMB12.77 billion, and total liabilities were RMB8.17 billion. Net assets were RMB4.61 billion, an increase of RMB2.03 billion over 2007. Gearing ratio (net debts/(net debts + equity attributable to equity shareholders of the Company)) was 43.6%, a decrease of 15.5 percentage points compared to the previous year end. The Group's total current assets were RMB3.11 billion, total current liabilities were RMB5.19 billion and net current liabilities were RMB2.08 billion. The Group's profits from future operations, cash flow forecast for 2009, and banking facilities granted to the Group, are sufficient to capital requirements for on-going needs for sustained operations.

(3) Long-term and short-term bank loans and other loans

(Unit: RMB'000)

Term of borrowings	**As at 31 December 2008**	As at 31 December 2007
Short-term borrowings (including long-term borrowings with maturity within one year)	**2,766,374**	2,493,877
Long-term borrowings	**1,911,482**	1,801,741
Total	**4,677,856**	4,295,618

As at the 31 December 2008, borrowings with maturity within one year amounted to RMB2.77 billion, representing 59.1% of total borrowings, and was one percentage points higher compared to the beginning of the year. Long-term borrowings with maturity of more than 1 year amounted to RMB1.91 billion, representing 40.9% of total borrowings, and was one percentage points lower compared to the beginning of the year. With the successful listing of the Company, the credit rating of the Company has continued to rise. We consider that the proportion of long-term borrowings will increase progressively, which will gradually improve the liquidity of corporate assets.

(4) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

(Unit: RMB'000)

	31 December 2008	31 December 2007
Authorised and contracted	**371,303**	462,456
Authorised but not contracted	**279,861**	—
Total	**651,164**	462,456

As at 31 December 2008, capital commitments authorised and contracted by the Group amounted to RMB371 million, a decrease of RMB91.15 million or 19.7% as compared to 31 December 2007. Capital commitments authorised but not contracted amounted to RMB280 million.

During the Reporting Period, the Group's total investing activities and capital expenditure amount was RMB2.40 billion, mainly used in the construction of cement and clinker production lines, and residual heat power generation projects. For details of the construction projects, please refer to the section of "Major investment projects" in the Directors' Report.

(5) Net cash flow analysis

(Unit: RMB'000)

	2008	2007
Net cash generated from operating activities	**1,037,261**	323,898
Net cash used in investing activities	**(2,404,513)**	(2,093,526)
Net cash generated from financing activities	**1,912,808**	2,168,204
Net changes in cash and cash equivalents	**545,556**	398,576
Balance of cash and cash equivalents at beginning of the year	**721,265**	323,514
Effect on cash from exchange rate changes	**(18,407)**	(825)
Balance of cash and cash equivalents at end of the year	**1,248,414**	721,265

During the Reporting Period, net cash generated from the operating activities of the Group was RMB1.04 billion, an increase of RMB713 million or 220.2% year-on-year, which mainly resulted from the benefits of the expanded size of the principal business, and from the favourable market environment. Cash used in investing activities was RMB2.41 billion, an increase of RMB311 million compared to the same period last year. The main reason for this was the Group's large number of construction projects in 2008 requiring a higher use of cash. Net cash flow generated from financing activities was RMB1.91 billion, which were mainly proceeds from the listing of the Company on the Stock Exchange on 4 July 2008 and the subsequent full exercise of the over-allotment option.

FINANCIAL REPORTING AND CORPORATE ACCOUNTING POLICY

The Board, supported by the Chief Financial Officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group. In the preparation of financial statements, the Company has adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB, since its listing date.

(VII) Management Discussion and Analysis

OUTLOOK FOR 2009

Industry policy and favourable factors

In 2009, under the impact of the international financial crisis, economic developments in China are facing many uncertainties. Businesses are facing rising costs of production, structural changes in market demand, as well as policy-oriented structural adjustment pressure towards energy saving and emissions reduction. Having conducted an in-depth analysis of the China's macroeconomic conditions, the Group considers that whilst a number of opportunities arise from this business climate, there are also some challenges. The favourable effects are as follows:

1. The State government continues to proceed with structural adjustments, energy saving and emission reductions. Thus, the advantages of the new dry process and large business are more prominent.

   The Central Government has expressly put forward the overall guiding principles for 2009: "to expand domestic demand, maintain growth, adjust structure, achieve standards, focus on reforms, increase vigour, emphasize citizen livelihood and promote harmony". Therefore, the government will continue to provide assurances, and to exert pressure, to increase industry concentration, to prevent high energy consumption, serious pollution and duplicated low standard facilities, to cancel tax exemption on vertical kiln, including the elimination of 10.25 million tonnes of vertical kiln cement production capacity in Shandong Province, and the complete elimination of vertical kiln cement production capacity in Liaoning Province. The implementation of these measures will be helpful for the Group to take advantage of the scale, techniques and management of the new dry process cement production technology, to proceed with mergers and acquisitions, and to increase competitiveness.

2. The measures implemented by the State government to expand domestic demand and to promote growth will improve the prosperity of the building materials industry.

   On 10 November 2008, ten measures were announced by the State government to expand domestic demand and promote economic growth with a total investment of RMB4 trillion by the end of 2010. These measures include the accelerated construction of significant infrastructure projects (e.g. railways, highways and airports, etc.), the enhanced development of the ecological environment, and the accelerated reconstruction of the earthquake-damaged areas, all of which are closely related to the construction materials industry, and will necessarily increase the demand for bulk materials such as cement and non-metal construction products. The enhanced development of the ecological environment will promote the progress in energy saving and emission reductions, and increase the demand for energy saving construction and water piping products such as Prestressed Concrete Cylinder Pipe (PCCP). Shandong Province will focus on expanding the size of investments in 2009, with not less than RMB1,600 billion being injected into key industries and areas such as citizen likelihood projects, infrastructure facilities, ecological environment protection, self-innovations, modern industrial systems, etc. Specifically, there will be 3,341 km of newly built and reconstructed railways and 761 km of expressways in operation and under construction according to the "four vertical and four horizontal" railway construction plan. In addition, with the village housing construction and dilapidated housing reconstruction programs starting in 2009, newly built housing units per year will reach almost one million units, driving the investment amount involved to RMB300 billion within 3 years. Liaoning Province will also execute on a RMB1,300 billion fixed asset investment plans, aimed at completing RMB650 billion in industrial fixed asset investment, RMB330 billion in infrastructure and agricultural investments and RMB240 billion in real estate investment. (Source: Work Reports of Shandong Province and Liaoning Province 2009). Furthermore, the accelerated structural adjustments and the determination to eliminate obsolete production capacity will also improve the operating environment and promote the sustainable development of the cement industry.

3. Interest rate cuts and tax deductions are conducive to lowering costs of investment and operations.

   During the second half of 2008, the People's Bank of China reduced interest rate several times, and interest rates are expected to fall further in 2009. Since 1 January 2009, the State has implemented value-added tax reforms in all areas and industries nationwide by allowing businesses to deduct value-added tax embedded in newly acquired equipment. With effect from 1 January 2008, all purchases of specialised equipment for energy saving, water saving and environmental protection purposes will be allowed a tax credit equivalent to 10% of the investment amount spent on the specialised equipment against the payable corporate income tax for the current assessment year. In addition, the government has reduced or cancelled a large number of administrative fee items to support business development. These preferential policies are favourable to relieving the burden on businesses and reducing the costs of investment and operations, thus they will, to a certain extent, help increase the net profit of the companies.

4. Prices of all raw materials and fuels have tended towards stabilisation, thereby reducing cost pressures on businesses. In 2009, the coal market in China will turn from tight position to more relaxed supply conditions, with most regions generally being oversupplied, and so coal prices will gradually stabilise. The stability of upstream energy prices is conducive to relieving cost pressure on businesses and provides room for further increases in profits.

Future trend analysis of the cement industry

With the implementation of the RMB 4 trillion investment plan, the slower growth in production and sales of cement during the second half of 2008 is expected to improve in 2009, hence cement fixed asset investment in China will maintain steady growth in 2009.

With increased domestic demand in China and the implementation of growth-facilitating measures by the Central Government, the beginning of large-scale infrastructure projects is expected to increase the demand for concrete products, and it is estimated that the effect may crystalise after the second quarter of 2009. It is anticipated that conditions for the cement industry will improve markedly in the second half of 2009. Nevertheless, market conditions will remain subdued during the first half of the year. As fuel prices are expected to be stable and possibly decline during 2009, it is anticipated that prices of cement products may drop in 2009.

Development plans of the Group in 2009

In 2009, the Group will fully utilise the aforementioned favourable conditions to adhere to the “three maintenance and one reduction” policy (maintain growth, maintain markets, maintain profits and reduce costs), and efforts will be made to achieve the following:

1. Continue to follow the principles of “building clinker facilities in places where there are resources, and to build cement grinding stations in places where markets exist” in order to further improve the industry distribution plans in Shandong and Liaoning Provinces, and to enhance regional control capabilities. The clinker production lines (including residual heat power generation) and cement production lines which began construction in 2008 will commence operations in 2009, the new clinker production capability for the full year is expected to be 4.35 million tonnes, cement production capability is expected to be 12.45 million tonnes and the additional residual heat power generating capability is expected to be 67,500 KW. Within two years from 2009, the Group will exploit the opportunities arising from the Central Government’s economic stimulus plan to speed up the structural adjustments of the industry. In Shandong Province, the principles of adopting “merger and acquisitions as the key strategy, and appropriate new construction as supplementary strategy” will be observed with the expansion to Southern Shandong, Northern Jiangsu, Northern Anhui, Northern Shandong and Southern Hebei; In Liaoning, however, production capacity will continue to be increased with the blessing of the government development plan of “5 points and 1 line”, with further enhancement to market autonomy.

2. Target efforts for a “market aggression year” by further improving marketing and sales strategies, increasing product sales and expanding market shares. The Group will try to capture the opportunities provided by the increase in infrastructure investment by the regional government, and endeavour to win biddings processes on all key projects. Meanwhile, by capturing the opportunities emerging as a result of the increased rate of the construction of new rural villages by the State, we will continue to expand our position in rural markets, and improve the distribution to designated outlets to continue strengthening our “Shanshui Dongyue” brand in this market.

3. Continue our corporate restructuring effort to enhance the Group’s fundamental management functions. In 2009, the Group will further improve the corporate governance structure and internal control workflow system in accordance with the requirements for listed companies. All companies under the Group will develop “target management” with the objectives of ensuring turnover increase, cost reduction, quality stabilisation and efficiency improvement in order to optimise various technical key performance indicators, continue to maintain a leadership position in the industry, and enhance our market competitiveness.

4. Implement strict systems for financial budget and funds approval to maintain healthy cashflow levels. The Group will continue to implement a “no credit no debt” sales policy to ordinary customers not belonged to major accounts to ensure the timely recovery of funds. It will also strengthen key processes such as procurement and sales, etc., control the process of investment and operations, and monitor unnecessary expenses stringently to minimise financial risks effectively.

Looking ahead, the management of the Group will face challenges with unwavering confidence. It will pursue the development strategies of the Group actively, and continue to achieve good operating results to create value for investors.

1. PRINCIPAL BUSINESS

Being the largest cement production business in Shandong and Liaoning Provinces, the Company will insist on developing its core business, namely, the production and sales of various types of quality cement and the production of commodity clinker necessary for various types of high grade cement. The commodity clinker produced by the Company is mainly sold to clients of cement grinding station. The cement produced by the Company under the brand of "Shanshui Dongyue" is widely used in the construction works for roads, bridges, housing and various types of landmark construction projects and has achieved a good reputation among customers. In September 2008, the "Shanshui Dongyue" brand was honoured the "Famous Trademark of Shandong Province".

2. MAJOR INVESTMENTS DURING THE REPORTING PERIOD

(1) Significant projects invested during the Reporting Period

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
1	Yishui Shanshui Cement Company Limited 4600 t/d clinker production line project (including 9MW residual heat power generation project)	Under pilot operation	250,258
2	Liaoyang Qianshan Cement Company Limited 4000 t/d clinker production line project (including 9MW residual heat generation project) and 1 million tonne cement grinding production line project	Commenced operation[(1)]	277,307
3	Dalian Shanshui Cement Company Limited 4000 t/d clinker production line project (including 9MW residual heat power generation project) and 2 million tonne cement grinding production line project	Under construction	317,895
4	Liaoning Shanshui Gongyuan Cement Company Limited 5000 t/d clinker production line project (including 9MW residual heat power generation project)	Under construction	203,862

Serial No.	Name of Project	Progress of Project	Invested amount during Reporting Period (RMB'000)
5	Weihai Shanshui Cement Company Limited cement grinding production line project with annual production of 2 million tonnes	Commenced operation(2)	106,247
6	Qingdao Shanshui Chuangxin Cement Company Limited cement grinding production line project with annual production of 1million tonnes	Under construction	28,149
7	Shenyang Shanshui Gongyuan Cement Company Limited cement grinding production line project with annual production of 2 million tonnes	Under construction	54,039
8	Dandong Shanshui Gongyuan Cement Company Limited cement grinding production line project with annual production of 1 million tonnes	Under construction	16,326
9	Liaoning Shanshui Gongyuan Cement Company Limited 4.5MW residual heat power generation project	Construction completed	19,038
10	Continental (Shandong) Cement Corporation 6MW residual heat power generation project	Under pilot operation	31,037
11	Yantai Shanshui Cement Company Limited 15MW residual heat power generation project	Under pilot operation	61,128
12	Zaozhuang Shanshui Cement Company Limited 6MW residual heat power production project	Under pilot operation	32,963

Note:

(1) During the Reporting Period, only the clinker production line of Qianshan Cement had been put into operation;

(2) During the Reporting Period, the Weihai Phase One 1 million ton cement grinding production line had been put into operation.

(2) Capital increase in subsidiaries during the Reporting Period

In order to further improve the corporate governance structure, a corporate restructuring plan was implemented. During the Reporting Period, the Company made investments to establish a number of subsidiaries. And to satisfy the operation and development needs of some subsidiaries of the Company, additional capital was injected by the Company into some of these subsidiaries during the Reporting Period. Details of new subsidiaries established and subsidiaries with capital increases are as follows:

Serial No.	Name of company	Capital increase amount	Registered capital after capital increase	Remarks
1	Weihai Shanshui Cement Company Limited	USD12,000,000	USD24,000,000	Newly established
2	Zaozhuang Chuangxin Shanshui Cement Company Limited		USD30,000,000	Newly established
3	Linqu Shanshui Cement Company Limited		USD25,000,000	Newly established
4	Shenyang Shanshui Gongyuan Cement Company Limited		USD12,000,000	Newly established
5	Dandong Shanshui Gongyuan Cement Company Limited		USD12,000,000	Newly established
6	Qingdao Shanshui Chuangxin Cement Company Limited		USD20,000,000	Newly established
7	Benxi Shanshui Gongyuan Transportation Company Limited		RMB360,000	Newly established
8	Benxi Shanshui Mechanics and Electronic Engineering Company Limited		RMB500,000	Newly established
9	Benxi Shanshui Gongyuan Packaging Products Company Limited		RMB500,000	Newly established
10	Shandong Shanshui Cement Group Company Limited	RMB606,118,640	RMB2,342,000,000	Capital increase
11	Liaoyang Qianshan Cement Company Limited	RMB30,000,000	RMB98,840,700	Capital increase
12	Shandong Shanshui Cement Industrial Design Development Company Limited	RMB 5,500,000	RMB6,000,000	Capital increase

(3) Cancellation of subsidiaries during the Reporting Period

In order to improve the corporate governance structure of subsidiaries, a subsidiary of the Company, Weifang Shanshui Hongda Fuel Co., Ltd., completed the cancellation of company registration during the Reporting Period. Its operating business was succeeded by Weifang Shanshui Cement Company Limited.

3. FUNDS RAISED BY LISTING AND USE OF PROCEEDS

The Company was listed during the Reporting Period and net proceeds of RMB1.72 billion was raised by public offer and the proceeds were used as follows:

Project	Amount (RMB million)	Percentage share in total proceeds raised (%)
Project construction	1,233	71.7
Loan repayment	194	11.3
Bank deposits	292	17.0

The Board believes that the remaining net proceeds will be used for the intended uses set out in the prospectus dated 20 June 2008.

4. MAJOR SUBSIDIARIES WITH CONTROLLING INTERESTS

As at 31 December 2008, the Company had controlling interests in 41 subsidiaries ("subsidiaries"). For details, please refer to Note 17 to the Financial Statements of this report prepared in accordance with IFRS.

During the Reporting Period, the top 5 major subsidiaries with the highest profits were as follows:

Name of Company	Revenue	Profit from operations	Net profit
	(RMB'000)	(RMB'000)	(RMB'000)
Pingyin Shanshui Cement Company Limited	876,991	153,372	122,630
Zibo Shanshui Cement Company Limited	757,052	139,973	81,774
Weifang Shanshui Cement Company Limited	510,502	92,145	56,187
Shandong Cement Factory Company Limited	675,859	107,116	55,600
Anqiu Shanshui Cement Company Limited	500,108	68,120	51,834

The operating results of the above companies increased significantly compared to the same period last year. Such increase was attributable to the beneficial effects resulting from the increased efforts to eliminate obsolete cement production capacities in the locations where these companies operated, strong market demand and significant increases both in sales volume and selling price.

5. GENERAL DUTIES OF THE BOARD OF DIRECTORS

During the Reporting Period, major resolutions and approved matters of the Board of Directors were as follows:

(1) On 14 June 2008, the Board of Directors considered, passed and endorsed the resolution that the Company would be listed on the Main Board in Hong Kong, as well as the share option plan of the Company.

(2) On 2 September 2008, the Board of Directors considered and passed the interim financial report of the Company.

6. PROFIT DISTRIBUTION PROPOSAL FOR 2008

According to the financial data prepared in accordance with IFRS, the Group's after tax profit and profit attributable to equity holders of the Company for 2008 were RMB549.21 million and RMB539.36 million respectively. Under the impact of the global economic crisis and the challenging global economic trend in 2009, and considering the various projects intended to be undertaken by the Company in 2009, the estimated capital expenditure may reach RMB569 million, and the demand for funds will be relatively large. Therefore, the Board of Directors has proposed to distribute profit for the year ended 31 December 2008 as follows: HK$214,012,215.20 will be used for the distribution of dividends, and the balance will be used for investment and the construction of the new dry process cement and clinker production lines, for the construction of the residual heat power generation project, and for the execution of energy saving technology reform projects. Additionally, cash will needed for the acquisition of projects in line with the strategic development of the Group as and when appropriate, and cash will also be used as working capital for the Company, so as to further enlarge the scale of production capacity of the Company, to implement energy saving and emission reduction, and to enhance the competitiveness of the Company.

The above proposal is required to be considered and approved by shareholders at the 2008 Annual General Meeting.

7. TAXATION

Details relating to taxation matters of the Group for the Reporting Period are set out in Note 7 to the Financial Statements prepared in accordance with IFRS.

8. MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2008, total sales attributable to the top five customers of the Group were less than 30% of total sales of the Group and total purchases attributable to the top five suppliers of the Group were less than 30% of total purchases of the Group.

9. LAND LEASES, REAL PROPERTIES, PLANT AND EQUIPMENT

During the Reporting Period for the year ended 31 December 2008, the changes in the land leases, real estate to properties, plant and equipment are set out in Note 13 and Note 14 to the Financial Statements prepared in accordance with IFRS.

10. TOTAL ASSETS

For the year ended 31 December 2008, the total assets of the Group as confirmed in accordance with IFRS are RMB12.77 billion, representing an increase of RMB2.49 billion compared to the previous year.

11. RESERVES

Changes in reserves of the Group for the year ended 31 December 2008 are set out in Note 32 to the Financial Statements prepared in accordance with IFRS.

12. DEPOSITS, LOANS AND CAPITALISED INTEREST

Details of the Company's loans for the year ended 31 December 2008 are set out in Note 25 of the Financial Statements prepared in accordance with IFRS. Deposits of the Company for the year ended 31 December 2008 are placed with commercial banks with good creditworthiness. The Group has no entrusted deposits nor any fixed deposits that cannot be withdrawn upon maturity. During the year, capitalised interest for projects under construction amounted to RMB58.54 million, listing expenses capitalised were RMB124.02 million, the details of which are set out in Note 6 and Note 32 to the Financial Statements prepared in accordance with IFRS.

(IX) Significant Events

1. MATERIAL LITIGATION AND ARBITRATION MATTERS

The Group was involved in the following material litigation and arbitration matters since the listing of the Company and up to the end of the Reporting Period:

(1) Loan dispute between Liaoyang Qianshan Cement Company Limited and ICBC Liaoyang Branch

ICBC brought a law suit against Qianshan Cement in December 2005, claiming for the total outstanding amount and overdue interest payments of an overdue loan of RMB25.0 million. The Intermediate People's Court of Liaoyang City made a judgment in January 2006, ordering Qianshan Cement to repay the full amount claimed by ICBC. In March 2008, ICBC applied for a payment order from the Intermediate People's Court of Liaoyang for an amount of RMB77.50 million (being the balance of the total amount of the overdue loan of RMB49.0 million together with the interest of RMB28.50 million). The total amount of RMB77.50 million was not disputed between the parties. This has been disclosed in the prospectus of the Company dated 20 June 2008.

As the result of the negotiation between Qianshan Cement and ICBC Liaoyang Branch, the parties reached a settlement agreement, pursuant to which Qianshan Cement agreed to pay RMB37 million to settle the loan and related interest on 2 December 2008 and ICBC agreed not to claim the balance of RMB81.98 million of the outstanding amount .

(2) Contract dispute between Zibo Shanshui Cement Company Limited and Tradeland Commodities in Spain

In December 2007, Zibo Shanshui entered into a sales contract with Tradeland Commodities in relation to 1 million tonne of clinker. Zibo Shanshui failed to perform its obligations under the contract, and Tradeland Commodities applied to London Court of International Arbitration for arbitration. The parties reached a settlement agreement after negotiation, pursuant to which Zibo Shanshui shall indemnify Tradeland Commodities for US$1.5 million, which was settled in January 2009.

2. MATERIAL ASSET ACQUISITIONS, DISPOSALS AND RESTRUCTURING MATTERS

Since the Company's Prospectus was issued by the Company on 20 June 2008 up to the end of the Reporting Period, there was no material asset acquisitions, disposals and restructuring matters.

3. CONTINUING CONNECTED TRANSACTIONS

On 14 June 2008, the Company entered into a framework agreement (the "Framework Agreement") with Tianjin Tianhui Cement Company Limited ("Tianjin Tianhui") for a term commencing from the listing date of 4 July 2008 to 31 December 2010 for the purpose of regulating the purchase by Tianjin Tianhui of clinker produced by the Group from time to time. The transactions under the Framework Agreement are of regular and continuing nature and in the ordinary and usual course of business of the Group.

Tianjin Tianhui is a subsidiary of Jinan Shanshui in which Mr Zhang Caikui, one of the controlling shareholders of the Company, indirectly holds more than 30% controlling interests. Accordingly, Tianjin Tianhui is a connected person of the Company and the transactions under the Framework Agreement constituted continuing connected transactions for the Company under the Listing Rules.

For the year ended 31 December 2008, the transaction value under the Framework Agreement between the Group and Tianjin Tianhui was RMB55,435,611.

The above continuing connected transactions have been reviewed by the directors of the Company (including the independent non-executive directors). The independent non-executive directors noted that the transaction value under the Framework Agreement for the financial year ended 31 December 2008 as stated above has exceeded the cap of RMB 45 million as disclosed in the prospectus of the Company dated 20 June 2008 (the "Prospectus"). The independent non-executive directors have confirmed that save as disclosed above, these continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are on normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable to the Company than terms available to or provided by independent third parties (as the case may be); and

(c) under the terms of the Framework Agreement and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

The auditors of the Company have also confirmed that these continuing connected transactions:

(a) have received the approval of the board of directors of the Company;

(b) are in accordance with the pricing policies of the Group;

(c) have been entered into in accordance with the Framework Agreement; and

(d) as disclosed above, have exceeded the caps disclosed in the Prospectus.

On 30th March 2009, the Company issued an announcement pursuant to Rule 14A.40 of the Listing Rules disclosing the fact that the actual transaction value under the Framework Agreement for the financial year ended 31 December 2008 has exceeded the cap, and other related matters as stated above.

4. MATERIAL CONTRACTS

(1) Signing of material contracts

Except as disclosed in the Prospectus of the Company, the Group did not sign any material contracts during the current Reporting Period.

(2) Guarantees

Details of external guarantees provided by the Company during the Reporting Period are set out in Note 35 to the Financial Statements prepared in accordance with IFRS.

(3) Signing of material trustee arrangements

During the Reporting Period, the Company did not enter into any material trustee arrangement in respect of financial management.

(4) Performance of commitments

Details of the performance of the Company's commitments during the Reporting Period are set out in Note 34 to the Financial Statements prepared in accordance with IFRS.

(X) Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of

China Shanshui Cement Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Shanshui Cement Group Limited (the "Company") set out on pages 62 to 166, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Revenue	4	**7,500,761**	4,144,552
Cost of sales		**(5,914,313)**	(3,372,871)
Gross profit		**1,586,448**	771,681
Other income, net	5	**167,464**	79,869
Selling and marketing expenses		**(175,213)**	(156,756)
Administrative expenses		**(553,251)**	(262,887)
Profit from operations		**1,025,448**	431,907
Finance income		**35,572**	41,308
Finance expenses		**(348,025)**	(210,146)
Net finance expenses	6(a)	**(312,453)**	(168,838)
Profit before taxation	6	**712,995**	263,069
Income tax	7	**(163,784)**	(48,490)
Profit for the year		**549,211**	214,579
Attributable to:			
Equity shareholders of the Company		**539,357**	211,948
Minority interests		**9,854**	2,631
Profit for the year		**549,211**	214,579
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	11	**188,630**	205,755
Earnings per share	12		
Basic (RMB)		**0.23**	0.11
Diluted (RMB)		**0.23**	0.10

The notes on pages 69 to 166 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

(Expressed in Renminbi)

	Note	**2008**	2007
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	13	**7,368,250**	5,784,887
Lease prepayments	14	**1,269,533**	1,078,406
Intangible assets	15	**285,462**	295,573
Goodwill	16	**500,746**	500,746
Other investments	18	**6,789**	18,323
Deferred tax assets	19(b)	**102,611**	34,745
Other long-term assets	20	**133,166**	—
		9,666,557	7,712,680
Current assets			
Inventories	21	**890,619**	532,997
Trade and bills receivable	22	**351,781**	429,254
Other receivables and prepayments	23	**582,811**	877,936
Pledged bank deposits	24	**32,435**	7,737
Cash and cash equivalents	24	**1,248,414**	721,265
		3,106,060	2,569,189
Current liabilities			
Short-term and current portion of interest-bearing borrowings	25(a)	**2,713,800**	2,437,688
Current portion of loans from equity holders	25(b)	**52,574**	56,189
Trade and bills payable	26	**1,207,991**	835,531
Other payables and accrued expenses	27	**1,057,941**	1,694,219
Current tax liabilities	19(a)	**152,138**	22,440
Obligation under finance leases	28	**1,133**	—
		5,185,577	5,046,067
Net current liabilities		**(2,079,517)**	(2,476,878)
Total assets less current liabilities		**7,587,040**	5,235,802

The notes on pages 69 to 166 form part of these financial statements.

Consolidated Balance Sheet *(continued)*

At 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Interest-bearing borrowings, less current portion	25(a)	**1,674,900**	1,492,700
Loans from equity holders, less current portion	25(b)	**236,582**	309,041
Convertible notes	25(c)	**89,577**	85,458
Defined benefit obligations	29(c)	**194,630**	183,899
Deferred income	30	**296,323**	39,886
Long-term payables	31	**358,783**	414,744
Deferred tax liabilities	19(b)	**123,646**	137,096
Obligation under finance lease	28	**7,050**	—
		2,981,491	2,662,824
NET ASSETS		**4,605,549**	2,572,978
Equity			
Share capital	32	**185,372**	244
Reserves	32	**4,375,199**	2,531,249
Equity attributable to equity shareholders of the Company		**4,560,571**	2,531,493
Minority interests	32	**44,978**	41,485
Total equity		**4,605,549**	2,572,978

Approved and authorised for issue by the board of directors on 17 April 2009.

ZHANG Caikui	**LI Yanmin**
Director	Director

The notes on pages 69 to 166 form part of these financial statements.

Balance Sheet

At 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Investment in subsidiaries	17	**413,248**	413,248
Current assets			
Amount due from subsidiaries	37	**2,984,517**	1,864,471
Cash and cash equivalents	24	**292,979**	—
		3,277,496	1,864,471
Current liabilities			
Amount due to subsidiaries	37	**22,660**	—
Other payables and accrued expenses	27	**525**	—
		23,185	—
Net current assets		**3,254,311**	1,864,471
Total assets less current liabilities		**3,667,559**	2,277,719
Non-current liabilities			
Convertible notes	25(c)	**89,577**	85,458
NET ASSETS		**3,577,982**	2,192,261
Equity			
Share capital	32	**185,372**	244
Reserves	32	**3,392,610**	2,192,017
Total equity		**3,577,982**	2,192,261

Approved and authorised for issue by the board of directors on 17 April 2009.

ZHANG Caikui	**LI Yanmin**
Director	Director

The notes on pages 69 to 166 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Total equity at 1 January	32	**2,572,978**	510,681
Net profit for the year	32		
Attributable to:			
– Equity shareholders of the Company		**539,357**	211,948
– Minority interests		**9,854**	2,631
		549,211	214,579
Dividends declared or approved during the year	32	**(205,755)**	—
Net income recognised directly in equity:	32		
Acquisition of additional interest in a subsidiary		**(677)**	—
Available-for-sale investments			
– fair value change		**(8,613)**	7,588
– transfer upon disposal		**—**	(253)
Equity portion of convertible notes		**—**	64,774
Exchange differences		**(14,930)**	(9,821)
		(24,220)	62,288
Movements in equity arising from capital transactions:	32		
Issuance of shares		**1,718,982**	1,765,668
Increase in minority interests attributable to acquisition of subsidiaries and contribution to subsidiaries		**—**	19,762
Increase in minority interests attributable to subsidiaries		**550**	—
Liquidation of a dormant subsidiary		**(6,197)**	—
		1,713,335	1,785,430
Total equity at 31 December		**4,605,549**	2,572,978

The notes on pages 69 to 166 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

(Expressed in Renminbi)

	Note	2008	2007
		RMB'000	RMB'000
Operating activities			
Profit before taxation		**712,995**	263,069
Adjustments for:			
Depreciation	13	**454,920**	266,883
Amortisation of lease prepayments	14	**24,492**	8,950
Amortisation of intangible assets	15	**54,222**	8,340
Amortisation of other long-term assets	20	**4,918**	—
Impairment losses on property, plant and equipment	13	**49,242**	—
Net finance expenses	6(a)	**335,116**	186,930
Gain on acquisition of minority interests		**(677)**	—
Dividend income from investments		**(175)**	—
Losses on sale of property, plant and equipment	5	**22,962**	144
Effect of foreign exchange rate changes		**(25,339)**	(18,092)
		1,632,676	716,224
(Increase)/decrease in inventories		**(357,622)**	33,043
Decrease/(increase) in trade and bills receivable		**52,775**	(193,086)
Decrease/(increase) in other receivables and prepayments		**101,414**	(50,166)
Increase in trade and bills payable		**163,179**	2,812
(Decrease)/increase in other payables and accrued expenses		**(105,415)**	50,105
Increase in defined benefit obligations		**2,671**	—
(Decrease)/increase in deferred income		**(4,270)**	1,188
Cash generated from operating activities		**1,485,408**	560,120
Interest paid		**(335,666)**	(196,372)
Income tax paid		**(112,481)**	(39,850)
Net cash generated from operating activities		**1,037,261**	323,898

The notes on pages 69 to 166 form part of these financial statements.

Consolidated Cash Flow Statement *(continued)*

For the year ended 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Investing activities			
Payment for purchase of property, plant and equipment		**(1,843,161)**	(834,178)
Payment for purchase of land use rights		**(149,688)**	(74,116)
Payment for purchase of intangible assets		**(7,249)**	(141,586)
Payment for other long-term assets		**(44,396)**	—
Acquisition of subsidiaries, net of cash acquired		**(394,551)**	(1,075,309)
Proceeds from sale of property, plant and equipment		**21,448**	4,965
Proceeds from sale of other investments		**—**	7,176
Dividend received from other investment	6(a)	**175**	—
Interest received		**12,909**	19,522
Net cash used in investing activities		**(2,404,513)**	(2,093,526)
Financing activities			
Proceeds from new loans and borrowings		**3,446,000**	1,828,437
Net proceeds from the issuance of shares		**1,718,982**	1,765,668
Proceeds from capital injection in subsidiaries by minority interests		**550**	820
Payment to minority holders in relation to disposal subsidiary		**(6,197)**	—
Proceeds from issue of convertible notes		**—**	149,740
Repayment of loans and borrowings		**(3,040,772)**	(1,576,461)
Dividends paid to equity shareholders	11	**(205,755)**	—
Net cash generated from financing activities		**1,912,808**	2,168,204
Net increase in cash and cash equivalents		**545,556**	398,576
Cash and cash equivalents at 1 January		**721,265**	323,514
Effect of foreign exchange rate changes		**(18,407)**	(825)
Cash and cash equivalents at 31 December	24	**1,248,414**	721,265
Supplemental disclosure of non-cash investing and financing transactions:			
Exchange of ordinary shares		**—**	413,248

The notes on pages 69 to 166 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (collectively referred to as the "Group").

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The financial statements is presented in Renminbi ("RMB") (the "presentation currency"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

– available-for-sale investments (see Note 1(e)); and

– derivative financial instruments (see Note 1(f)).

The financial statements have been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeded its current assets by RMB2,079,517,000 as at 31 December 2008. Based on future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation, the Company's directors have prepared the financial statements on a going concern basis.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 40.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and minority interests *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 1 (o), (p) or (q) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 1 (l)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 1 (l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Other investments in debt and equity securities *(continued)*

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in Notes 1 (v)(iv) and 1 (v)(v).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see Note 1 (l)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 1 (l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in accordance with the policy set out in Note 1 (v)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in Note 1 (v)(v). When these investments are derecognised or impaired (see Note 1 (l)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 1(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line basis over their estimated useful lives.

The estimated useful lives of property, plant and equipment are as follows:

Plants and buildings	10-40 years
Equipment	10-20 years
Motor vehicles and others	5-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress is stated at cost less impairment losses (see Note 1(l)). Cost comprises direct costs of construction during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Long-term prepayments

(i) Lease prepayments

Lease prepayments represent payments made to acquire land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 1(l)). Amortisation is charged to the income statement on a straight-line basis over the respective periods of the land use rights.

(ii) Long-term consulting service contract

Long-term consulting service contract represents payments made to consultants. Long-term consulting service contract is carried at cost less accumulated amortisation and impairment losses (see Note 1 (l)). Amortisation is charged to the income statement over the service period.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(l)). Expenditure on internally generated goodwill and brands is recognised as an expenses in the period in which it is incurred.

Amortisation for intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date that they are available for use.

The estimated useful lives are as follows:

Limestone mining rights	7-13 years
Customer relationships	5 years
Supplier relationship	15 months
Trademarks	10 years
Software and others	3-10 years

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investment in subsidiaries (See Note 1(l)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- long-term prepayments;
- intangible assets other than goodwill;
- investment in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 1 (l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sales equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(l)), except where the receivables are interest-free loans made to related parties without fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 1(l)).

(o) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability portion of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

(s) Employee benefits

(i) Short-term benefits

Salaries, wages, bonuses and other benefits and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution retirement plans

Obligations for contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees of the Group. The contribution payables under the Group's retirement plans are recognised as expense in profit or loss as incurred.

(iii) Defined benefit plans

The Group's obligations in respect of long-term employee benefits other than pension plans are the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on long-term treasury bonds of the PRC. The calculation is performed annually by a qualified actuary using the projected unit credit method. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligations at the balance sheet date, that portion is amortised within the remaining life (any junior family member to age of 18) of the employees in profit or loss.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income during the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends if recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantees, provisions and contingent liabilities

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

(i) Financial guarantees issued

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Financial guarantees, provisions and contingent liabilities *(continued)*

(ii) Financial guarantees received

Where the Group receives a financial guarantee, the fair value of the guarantee is initially recognised as deferred expenses within trade and other receivables. Where consideration is paid or payable for the acquisition of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of liability. Where no such consideration is paid or payable, an immediate income is recognised in profit or loss on initial recognition of any deferred expense.

The amount of the guarantee initially recognised as deferred income/expense is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued/expense from financial guarantees received. In addition, provisions are recognised in accordance with Note 1(u)(iii) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(iii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(ii) Services rendered

Revenue from transportation services is recognised in profit or loss as and when the services are performed.

Revenue from design and installation services is recognised in profit or loss in proportion to the stage of completion. The stage of completion is assessed by reference to surveys of work performed.

(iii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(iv) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(w) Translation of foreign currencies

The Group's functional and presentation currency is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates ruling at the balance sheet date. Foreign exchange differences, other than those capitalised as construction in progress, are recognised as income or expense in profit or loss.

Notes to the Financial Statements

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Segment reporting *(continued)*

In accordance with the Group's internal financial reporting system, the Group has chosen geographical segment information as the primary reporting format and business segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group:

- IFRIC 11, *IFRS 2 – Group and treasury share transactions*
- IFRIC 12, *Service concession arrangements*
- IFRIC 14, IAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction*
- Amendment to IAS 39, *Financial instruments: Recognition and measurement, and* IFRS 7, *Financial instruments: Disclosures – Reclassification of financial assets*

These IFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 41).

Notes to the Financial Statements

(Expressed in Renminbi)

3 SEGMENT REPORTING

The Group's risks and rates of return are affected predominantly by differences in the areas it operates. Geographical segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group operates in a single business segment, the manufacturing and trading of cement and clinker in the PRC, no business segment information is presented.

The Group has two geographical segments by location of operations as follows:

(i) Shandong Province – subsidiaries operated and located in the Shandong Province of the PRC.

(ii) Northeastern China – subsidiaries operated and located in the Liaoning Province and Inner – Mongolia Autonomous Region of the PRC.

	Year ended 31 December 2008				Year ended 31 December 2007			
	Shandong Province RMB'000	**Northeastern China RMB'000**	**Inter-segment elimination RMB'000**	**Consolidated RMB'000**	Shandong Province RMB'000	Northeastern China RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Segment revenue	**6,645,966**	**903,681**	**(48,886)**	**7,500,761**	4,144,552	—	—	4,144,552
Segment result	**1,086,686**	**40,059**	**(9,884)**	**1,116,861**	474,834	—	—	474,834
Unallocated operating income and expenses				**(91,413)**				(42,927)
Profit from operations				**1,025,448**				431,907
Net finance expenses				**(312,453)**				(168,838)
Taxation				**(163,784)**				(48,490)
Profit for the year				**549,211**				214,579
Depreciation and amortisation for the year	**421,161**	**112,473**			284,173	—		

3 SEGMENT REPORTING *(continued)*

	Year ended 31 December 2008				Year ended 31 December 2007			
	Shandong Province RMB'000	Northeastern China RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000	Shandong Province RMB'000	Northeastern China RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Impairment of -property, plant and equipment	**12,031**	**37,211**			—	—		
Segment assets	**7,816,134**	**3,291,329**	**(9,884)**	**11,097,579**	6,727,412	2,099,736	—	8,827,148
Unallocated assets				**1,675,038**				1,454,721
Total assets				**12,772,617**				10,281,869
Segment liabilities	**2,484,226**	**1,389,648**	**—**	**3,873,874**	3,534,196	1,487,745	—	5,021,941
Unallocated liabilities				**4,293,194**				2,686,950
Total liabilities				**8,167,068**				7,708,891
Capital expenditure incurred during the year	**1,041,367**	**958,731**			1,049,880	—		

4 REVENUE

	2008 RMB'000	2007 RMB'000
Sales of cement and clinker	**7,076,042**	3,908,289
Sales of other products and rendering of services	**424,719**	236,263
	7,500,761	4,144,552

Notes to the Financial Statements

(Expressed in Renminbi)

5 OTHER INCOME, NET

	Note	2008 RMB'000	2007 RMB'000
Other income			
Government grants	(i)	**170,351**	70,526
Amortisation of deferred income	30	**4,270**	1,188
Financial guarantee received		**—**	21,009
Amortisation of financial guarantee issued		**32,721**	31,040
Penalty income		**755**	1,940
Debt restructuring gain	(ii)	**81,976**	—
Others		**10,092**	8,726
		300,165	134,429
Other expenses			
Financial guarantee issued		**—**	(21,009)
Amortisation of financial guarantee received		**(32,222)**	(31,040)
Net losses from sale of property, plant and equipment		**(22,962)**	(144)
Impairment losses on property, plant and equipment		**(49,242)**	—
Impairment of inventory	(iii)	**(4,458)**	—
Donations		**(5,210)**	—
Compensation to customer	(iv)	**(10,267)**	—
Penalty expenses		**(4,158)**	(740)
Others		**(4,182)**	(1,627)
		(132,701)	(54,560)
Other income, net		**167,464**	79,869

5 OTHER INCOME, NET *(continued)*

Notes:

(i) Government grants totalling RMB144,878,000 (2007: RMB62,980,000) represent the refunds of value-added tax received from the tax bureau for usage of industrial waste during the year ended 31 December 2008. The remaining amounts mainly represent various government subsidies received from finance bureau to encourage companies invested in the respective areas.

(ii) In July 2008, the Liaoyang branch of Industrial and Commercial Bank of China ("ICBC") applied for a payment order from the Intermediary Court of Liaoyang (the "Court") for past due bank loans of Liaoyang Qianshan Cement Co., Ltd. ("Qianshan Cement") for the amount of RMB44,988,000 out of past due loans from ICBC totalling RMB73,988,000, together with interest. The payment order was approved by the Court on the same date. After negotiation with the ICBC, the Group finally settled the full past due loans and related interests with RMB37,000,000 on 2 December 2008. The remaining balance of RMB81,976,000 has been waived.

(iii) This represents the amount of written off spare parts in stock. These spare parts were related to obsolete and disposed production lines.

(iv) In December 2007, the Group's subsidiary Zibo Shanshui Cement Co., Ltd. ("Zibo Shanshui") signed a 1 million metric tons clinker sales agreement with an overseas customer. Zibo Shanshui was unable to fulfil the contract and has agreed, through arbitration, to compensate USD 1.5 million to the overseas customer. The supplementary settlement agreement was signed on 29 December 2008 and payment was made in January 2009.

Notes to the Financial Statements

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after crediting/(charging):

(a) Net finance expenses

	Note	2008 RMB'000	2007 RMB'000
Finance income			
Interest income on bank deposits		**12,909**	19,522
Net foreign exchange gain		**22,488**	18,092
Disposal gain of other investment		**—**	3,694
Dividend income of other investment		**175**	—
		35,572	41,308
Finance expenses			
Interest on interest-bearing borrowings		**(329,409)**	(209,859)
Less: capitalised interest expense	(i)	**58,544**	15,337
Net interest expense		**(270,865)**	(194,522)
Unwinding of discount	(ii)	**(63,458)**	(14,351)
Bank charges		**(7,239)**	(454)
Interest rate swaps		**(2,129)**	(819)
Losses on termination of interest rate swap contracts	27(v)	**(4,334)**	—
		(348,025)	(210,146)
Net finance expenses		**(312,453)**	(168,838)

Notes:

(i) The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation related to construction of plant is 6.83% (2007: 5.9%) for the year ended 31 December 2008.

6 PROFIT BEFORE TAXATION *(continued)*

(a) Net finance expenses *(continued)*

(ii) This item represents the unwinding of discount for the following liabilities using the effective interest rate:

	Note	2008 RMB'000	2007 RMB'000
Convertible notes	25(c)	**9,945**	2,856
Defined benefit plans	29(c)	**8,060**	2,650
Acquisition consideration payable	31	**45,453**	8,845
Total		**63,458**	14,351

(b) Personnel expenses

	2008 RMB'000	2007 RMB'000
Salaries, wages and other benefits	**412,503**	192,665
Contributions to defined contribution retirement plans	**40,634**	24,426
	453,137	217,091

(c) Other items

	2008 RMB'000	2007 RMB'000
Depreciation	**454,920**	266,883
Amortisation		
– lease prepayments	**24,492**	8,950
– intangible assets	**54,222**	8,340
Auditors' remuneration	**6,620**	3,210
Operating lease charges	**23,246**	31,764
Impairment losses		
– trade receivables	**20,127**	1,203
– property, plant and equipment	**49,242**	—
– inventory of spare parts	**4,519**	—
Cost of inventories	**5,914,313**	3,372,871
Net losses from disposal of property, plant and equipment	**22,962**	144

Note: Cost of inventories includes RMB635,227,000 (2007: RMB324,205,000) relating to personnel expenses, depreciation and amortisation expenses and provision of inventories for the year ended 31 December 2008, which are also included in the respective amounts disclosed separately above or in Note 6(b) for each type of expenses.

Notes to the Financial Statements

(Expressed in Renminbi)

7 INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
Current tax expenses		
Provision for the PRC income tax	**242,217**	51,681
Deferred tax expenses		
Origination and reversal of temporary differences	**(78,433)**	(8,489)
Change in tax rate	**—**	5,298
	163,784	48,490

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

(ii) No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2008 (2007: Nil).

(iii) Pursuant to the currently applicable income tax rules, the PRC regulations and local income tax concessions granted, the companies comprising the Group in the PRC are liable to the PRC enterprise income tax at a rate of 25% during the year ended 31 December 2008 (2007: 33%), except for the following:

The applicable income tax rate for Continental (Shandong) Cement Corporation ("Kangda Cement"), Continental (Shandong) Cement Products Manufacturing Corporation ("Kangda Products") and Continental (Shandong) Cement Mining Corporation ("Kangda Mining"), Shandong Shanshui Cement Group Company Ltd. ("Shandong Shanshui"), Pingyin Shanshui Cement Co., Ltd. ("Pingyin Shanshui") and Anqiu Shanshui Cement Co., Ltd. ("Anqiu Shanshui") is 25% (2007: 24%). Furthermore, these companies are registered as foreign invested enterprises and are entitled to a tax concession period during which they are fully exempted from the PRC enterprise income tax for two years starting from its first tax profit-making year, followed by a 50% reduction in the PRC enterprise income tax rate for the next three years.

The year 2006 was the first profit-making year of Kangda Products, Kangda Mining, Shandong Shanshui, Pingyin Shanshui and Anqiu Shanshui, therefore, they enjoy a 50% reduction in the PRC enterprise income tax for the year ended 31 December 2008 (2007: 0%). This year is the first profit-making year of Kangda Cement and it is fully exempted from the PRC enterprise income tax for the year ended 31 December 2008 (2007: 0%).

7 INCOME TAX *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

(iv) According to the new tax law and implementation rules of the new tax law, enterprises that enjoyed a fixed period of tax exemption and reduction under previous applicable rules and regulations would continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment had not commenced due to lack of taxable profit, such preferential tax treatment would commence from 1 January 2008.

(v) In addition, according to the new tax law, PRC subsidiaries of the Company are levied the withholding tax on the dividends to their foreign investors arising from profits earned subsequent to 1 January 2008 (see Note19(b)).

(b) Reconciliation between actual income tax expense and expected income tax based on profit before taxation at applicable statutory tax rates:

	Note	**2008**	2007
		RMB'000	RMB'000
Profit before taxation		**712,995**	263,069
Expected income tax using the Group's PRC statutory tax rate	(i)	**181,808**	86,813
Effect of tax rates in foreign jurisdictions		**(15,645)**	5,794
Tax holiday	7(a)(iii)	**(3,439)**	(41,260)
Non-deductible expenses	(ii)	**25,588**	17,763
Non-taxable income	(iii)	**(24,528)**	(21,116)
Tax credit	(iv)	**—**	(4,802)
Change in tax rate		**—**	5,298
Actual income tax expense		**163,784**	48,490
Effective tax rate		**23.0%**	18.4%

Notes to the Financial Statements

(Expressed in Renminbi)

7 INCOME TAX *(continued)*

(b) Reconciliation between actual income tax expense and expected income tax based on profit before taxation at applicable statutory tax rates: *(continued)*

Notes:

(i) The provision for current income tax is based on the PRC statutory rate of 25% (2007: 33%) of the taxable profit of the companies comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are tax-exempted.

(ii) Non-deductible expenses mainly represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes according to the PRC tax laws and regulations.

(iii) Non-taxable income mainly represents the income generated from production of certain products utilising industrial waste which is tax-exempted pursuant to the applicable PRC tax laws and regulations.

(iv) Tax credit represents credit on income tax for purchase of certain domestically produced equipment pursuant to the applicable PRC tax laws and regulations.

8 DIRECTORS' REMUNERATION

Details of the directors' remuneration for the year ended 31 December 2008 are as follows:

	Directors' Fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
Executive directors					
Zhang Caikui	3,812	343	10,355	12	14,522
Li Yanmin	2,842	295	—	9	3,146
Dong Chengtian	2,072	285	—	9	2,366
Yu Yuchuan	1,875	242	—	9	2,126
Non-executive directors					
Jiao Shuge*	—	—	—	—	—
Homer Sun*	—	—	—	—	—
Independent					
Non-executive Director					
Sun Jianguo*	50	—	—	—	50
Wang Yanmou*	50	—	—	—	50
Wang Jian*	50	—	—	—	50
	10,751	1,165	10,355	39	22,310

* Appointed on 1 July 2008.

Notes to the Financial Statements

(Expressed in Renminbi)

8 DIRECTORS' REMUNERATION *(continued)*

Details of the directors' remuneration for the year ended 31 December 2007 are as follows:

	Directors' Fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
Executive directors					
Zhang Caikui	—	59	2,941	23	3,023
Li Yanmin	—	53	2,547	20	2,620
Dong Chengtian	—	47	1,553	20	1,620
Yu Yuchuan	—	46	1,354	20	1,420
Non-executive directors					
Jiao Shuge	—	—	—	—	—
Homer Sun	—	—	—	—	—
	—	205	8,395	83	8,683

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four were also directors whose remuneration is disclosed in Note 8 for the year ended 31 December 2008 (2007: Four).

The aggregate of the remuneration in respect of the remaining individual (2007: One) is as follows:

	2008 RMB'000	2007 RMB'000
Salaries, allowances and other benefits	**249**	61
Bonuses	**1,780**	1,354
Contributions to defined contribution retirement plans	**15**	17
	2,044	1,432

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The remuneration of the remaining individual with the highest remuneration (2007: One) is within the following band:

	2008 Number of individuals	2007 Number of individuals
RMB1,000,000 to RMB1,500,000	**—**	1
RMB1,500,001 to RMB2,500,000	**1**	—
	1	1

10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company includes a loss of RMB7,520,000 (2007: RMB2,856,000) (See note 32(b)) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

(Expressed in Renminbi)

11 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	Note	2008 RMB'000	2007 RMB'000
Final dividend proposed and approved after the balance sheet date	(i)	—	205,755
Final dividend proposed after the balance sheet date	(ii)	188,630	—
		188,630	205,755

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the year:

	Note	2008 RMB'000	2007 RMB'000
Final dividend in respect of the previous financial year, declared and paid during the year	(i)	205,755	—

Notes:

(i) Pursuant to a resolution of the Board of Directors of the Company passed on 18 April 2008, the Company declared dividends of approximately USD28,311,540 for 3,254,200 nominal shares to the then shareholders and USD1,666,981 for 191,607 potential shares to note holders of convertible notes (See Note 25(c)) at USD 8.7 per share respectively, from retained earnings for the year ended 31 December 2007. The dividends have been fully paid out to the shareholders of the Company on 26 June 2008.

(ii) Pursuant to a resolution passed at the Directors' meeting on 17 April 2009, a final dividend in respect of the year ended 31 December 2008 of HKD 0.076 per share totaling HKD 214,012,215.20 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of HKD 214,012,215.20 proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to ordinary equity shareholders of the Company of RMB539,357,000 and the weighted average number of 2,318,060,274 ordinary shares, after taking into account the 1,952,520,000 ordinary shares of the Company in issue as if the shares were outstanding throughout the year ended 31 December 2008, and the issuance of ordinary shares in connection with the global offering and placing and the exercise of the over-allotment option during the year ended 31 December 2008.

The calculation of basic earnings per share for the year ended 31 December 2007 was based on the profit attributable to ordinary equity shareholders of the Company of RMB211,948,000 and on the 1,952,520,000 ordinary shares in issue after adjusting for the capitalisation issue in June 2008, as if these shares were outstanding throughout the year ended 31 December 2007.

Weighted average number of ordinary shares

	2008	2007
Issued and issuable ordinary shares at 1 January	**1,952,520,000**	1,952,520,000
Share issued in the global offering and placing	**322,745,315**	—
Effect of the exercise of the over-allotment option	**42,794,959**	—
Weighted average number of ordinary shares at 31 December	**2,318,060,274**	1,952,520,000

Notes to the Financial Statements

(Expressed in Renminbi)

12 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to ordinary equity shareholders of the Company of RMB549,302,000 (2007: RMB214,804,000) and the weighted average number of 2,433,024,474 ordinary shares (2007: 2,067,484,200), calculated as follows:

(i) Profit attributed to ordinary equity shareholders of the Company (diluted)

	2008	2007
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company (basic)	**539,357**	211,948
Unwinding of discount on convertible notes	**9,945**	2,856
Profit attributable to equity shareholders of the Company (diluted)	**549,302**	214,804

(ii) Weighted average number of ordinary shares (diluted)

	2008	2007
Weighted average number of ordinary shares (basic)	**2,318,060,274**	1,952,520,000
Effect of conversion of shares for convertible notes	**114,964,200**	114,964,200
Weighted average number of ordinary shares (diluted)	**2,433,024,474**	2,067,484,200

13 PROPERTY, PLANT AND EQUIPMENT

	Plants and buildings RMB'000	Equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2007	1,499,703	1,703,780	403,937	156,758	3,764,178
Additions	11,320	47,553	48,160	586,648	693,681
Transfers	39,754	474,657	7,095	(521,506)	—
Additions through business combinations	883,896	1,361,324	58,493	113,673	2,417,386
Disposals	(7,817)	(24,753)	(7,476)	—	(40,046)
At 31 December 2007	2,426,856	3,562,561	510,209	335,573	6,835,199
At 1 January 2008	**2,426,856**	**3,562,561**	**510,209**	**335,573**	**6,835,199**
Additions	**14,726**	**96,342**	**25,383**	**1,995,484**	**2,131,935**
Transfers	**31,456**	**699,219**	**21,357**	**(752,032)**	**—**
Disposals	**(22,982)**	**(29,064)**	**(18,428)**	**—**	**(70,474)**
Reclassification	**(154,448)**	**524,833**	**(370,385)**	**—**	**—**
At 31 December 2008	**2,295,608**	**4,853,891**	**168,136**	**1,579,025**	**8,896,660**
Accumulated depreciation and impairment					
At 1 January 2007	(182,435)	(489,255)	(146,676)	—	(818,366)
Charge for the year	(48,060)	(169,343)	(49,480)	—	(266,883)
Written back on disposals	7,341	23,519	4,077	—	34,937
At 31 December 2007	(223,154)	(635,079)	(192,079)	—	(1,050,312)
At 1 January 2008	**(223,154)**	**(635,079)**	**(192,079)**	**—**	**(1,050,312)**
Charge for the year	**(61,829)**	**(370,025)**	**(23,066)**	**—**	**(454,920)**
Impairment loss	**(23,537)**	**(18,493)**	**(7,212)**	**—**	**(49,242)**
Written back on disposals	**3,694**	**15,848**	**6,522**	**—**	**26,064**
Reclassification	**71,195**	**(235,325)**	**164,130**	**—**	**—**
At 31 December 2008	**(233,631)**	**(1,243,074)**	**(51,705)**	**—**	**(1,528,410)**
Carrying amount					
At 31 December 2008	**2,061,977**	**3,610,817**	**116,431**	**1,579,025**	**7,368,250**
At 31 December 2007	2,203,702	2,927,482	318,130	335,573	5,784,887

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13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) All plants and buildings are located in the PRC.

(b) Certain properties and equipment with an aggregate carrying amount of RMB1,300,286,000 (2007: RMB1,879,283,000) for the year ended 31 December 2008, are pledged to secure bank loans (see Note 25) granted to the Group.

(c) As at the date of this report, the ownership certificates for certain plants and buildings with a carrying amount of RMB21,674,000 have not been obtained (2007: RMB21,185,000).

(d) Construction in progress represents cement and clinker plants and residual heat generation plants.

(e) As at the date of this report, the Group is in the process of obtaining construction permits for certain clinker and cement production lines and residual heat generation. The carrying amount for these clinker production lines as at 31 December 2008 was RMB883,784,000 (2007: RMB89,882,000).

(f) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the year ended 31 December 2008 was RMB49,242,000 (2007: Nil).

(g) Property, plant and equipment held under finance lease

The Group leases a concrete mixer truck under finance lease expiring for ten years (See Note 28). The lease did not include contingent rentals. The carrying amount for the equipment held under finance lease was RMB1,965,000 (2007: Nil).

14 LEASE PREPAYMENTS

	2008	2007
	RMB'000	RMB'000
Cost		
At 1 January	**1,105,487**	316,370
Additions	**215,619**	67,327
Additions through business combinations	**—**	721,790
At 31 December	**1,321,106**	1,105,487
Accumulated amortisation		
At 1 January	**(27,081)**	(18,131)
Amortisation for the year	**(24,492)**	(8,950)
At 31 December	**(51,573)**	(27,081)
Carrying amount	**1,269,533**	1,078,406

(a) Lease prepayments represent land use rights in the PRC, which expire between 36 years and 70 years.

(b) Certain land use rights with an aggregate carrying amount of RMB197,361,000 (2007: RMB357,409,000) for the year ended 31 December 2008, are pledged to secure bank loans (see Note 25) granted to the Group.

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15 INTANGIBLE ASSETS

	Limestone mining rights	Customer relationships	Supplier relationship	Trademarks	Software and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2007	39,532	—	—	—	5,337	44,869
Additions	840	—	—	—	5,059	5,899
Additions through business combinations	168,761	25,291	5,897	63,100	1,750	264,799
At 31 December 2007	209,133	25,291	5,897	63,100	12,146	315,567
At 1 January 2008	**209,133**	**25,291**	**5,897**	**63,100**	**12,146**	**315,567**
Additions	**41,814**	**—**	**—**	**—**	**2,297**	**44,111**
At 31 December 2008	**250,947**	**25,291**	**5,897**	**63,100**	**14,443**	**359,678**
Accumulated amortisation						
At 1 January 2007	(7,912)	—	—	—	(3,742)	(11,654)
Amortisation for the year	(5,839)	(1,328)	(805)	—	(368)	(8,340)
At 31 December 2007	(13,751)	(1,328)	(805)	—	(4,110)	(19,994)
At 1 January 2008	**(13,751)**	**(1,328)**	**(805)**	**—**	**(4,110)**	**(19,994)**
Amortisation for the year	**(36,325)**	**(4,786)**	**(4,718)**	**(6,310)**	**(2,083)**	**(54,222)**
At 31 December 2008	**(50,076)**	**(6,114)**	**(5,523)**	**(6,310)**	**(6,193)**	**(74,216)**
Carrying amount						
At 31 December 2008	**200,871**	**19,177**	**374**	**56,790**	**8,250**	**285,462**
At 31 December 2007	195,382	23,963	5,092	63,100	8,036	295,573

15 INTANGIBLE ASSETS *(continued)*

(a) The amortisation charges of intangible assets during the year are included in the cost of sales and administrative expenses in the consolidated income statement.

(b) The limestone mining rights which are granted from the respective land bureau are valid for a period of 7 to 13 years. The limestone mines are located in Shandong and Liaoning provinces.

(c) The customer relationships amounting to RMB25,291,000 are non-contractual customer relationships acquired through acquisitions of Yantai Shanshui Cement Co., Ltd. ("Yantai Shanshui") and Zaozhuang Shanshui Cement Co., Ltd. ("Zaozhuang Shanshui") in September 2007. They are amortised over five years based on the Group's estimate on how long the Group could retain the customers.

(d) The supplier relationship amounting to RMB5,897,000 represents the value of the 15-month electricity supply contract acquired through the acquisition of Yantai Shanshui.

(e) Trademarks represent valuation of "千山", "工源" and "長白山" brands acquired through acquisitions of Qianshan Cement and Liaoning Shanshui Gongyuan Cement Co., Ltd. ("Gongyuan Cement") in December 2007. According to the resolution of the Board of Directors of the Group, trademarks acquired through business combinations would be phased out ten years later; management considers the estimated useful lives of trademarks are ten years though their legal rights are renewable.

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(Expressed in Renminbi)

16 GOODWILL

	2008	2007
	RMB'000	RMB'000
Cost		
At 1 January	**500,746**	—
Additions	**—**	500,746
At 31 December	**500,746**	500,746

Goodwill is allocated to the following groups of cash-generating units:

	2008	2007
	RMB'000	RMB'000
Continental Cement Corporation, Kangda Cement, Kangda Products and Kangda Mining (the "Kangda Cement Group")	**2,078**	2,078
Yantai Shanshui	**240,075**	240,075
Zaozhuang Shanshui	**65,169**	65,169
Qianshan Cement	**99,568**	99,568
Gongyuan Cement and its subsidiaries (the "Gongyuan Cement Group")	**93,856**	93,856
	500,746	500,746

The recoverable amounts of the cash-generating unit are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 16.27%. One major assumption is annual growth rates in revenue which vary among different subsidiaries. The growth rates are based on the subsidiaries' growth forecasts and the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance and its expectation for market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each subsidiary to exceed its recoverable amount. The discount rates used are pre-tax and reflect specific risks relating to the group.

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	**413,248**	413,248

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

	Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Attributable equity interest Indirect%	Principal activities
(a)	**Enterprise established in Hong Kong**					
	China Shanshui Cement Group (Hong Kong) Company Limited ("Shanshui Cement Hong Kong")	Hong Kong, PRC 25 January 2005	HKD10,000	—	100.00	Investment holding
	China Pioneer Cement (Hong Kong) Company Limited ("Pioneer Cement")	Hong Kong, PRC 25 January 2005	HKD0.01	—	100.00	Investment holding
(b)	**Enterprise established outside the PRC**					
	Continental Cement Corporation ("Continental Cement")	British Virgin Islands 30 May 2000	USD100	—	100.00	Investment holding
(c)	**Wholly foreign owned enterprises established in the PRC**					
	Shandong Shanshui	Shandong, PRC 10 August 2001	RMB2,342,000,000	—	100.00	Investment holding
	Kangda Cement	Shandong, PRC 6 April 2002	USD11,980,000	—	100.00	Production and sales of cement
	Kangda Products	Shandong, PRC 6 February 2002	USD20,484,500	—	100.00	Manufacturing cement products and related spare parts
	Kangda Mining	Shandong, PRC 6 April 2002	USD7,101,000	—	100.00	Mining, storage and sales of limestone

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17 INVESTMENTS IN SUBSIDIARIES *(continued)*

	Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Attributable equity interest Indirect%	Principal activities
(d)	**Sino-foreign equity joint venture enterprises established in the PRC**					
	Pingyin Shanshui	Shandong, PRC 1 August 2003	RMB178,000,000	—	98.97	Production and sales of cement and clinker
	Anqiu Shanshui	Shandong, PRC 4 August 2003	RMB152,000,000	—	99.06	Production and sales of cement and clinker
	Weihai Shanshui Cement Co., Ltd.	Shandong, PRC 25 March 2008	Registered capital of USD24,000,000 and paid-in capital of USD21,000,000	—	100.00	Manufacturing and selling of cement
	Dandong Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 31 March 2008	USD12,000,000	—	100.00	Establishment of cement production line
	Qingdao Shanshui Chuang-xin Cement Co., Ltd.	Shandong, PRC 5 April 2008	USD20,000,000	—	100.00	Establishment of cement production line
	Shenyang Shanshui Gongyuan Cement Co., Ltd.	Liaoning, PRC 9 July 2008	USD12,000,000	—	100.00	Establishment of cement production line
	Linqu Shanshui Cement Co., Ltd.	Shandong, PRC 18 July 2008	Registered capital of USD25,000,000 and paid-in capital of USD24,990,700	—	100.00	Establishment of cement production line
	Zaozhuang Chuang-xin Shanshui Cement Co., Ltd.	Shandong, PRC 5 September 2008	USD30,000,000	—	100.00	Establishment of cement production line
(e)	**Domestic companies established in the PRC**					
	Shandong Cement Factory Co., Ltd. ("Shandong Cement Factory")	Shandong, PRC 3 April 1990	RMB182,000,000	—	99.00	Production and sales of cement; production of limestone
	Jinan Shi-ji Chuang-xin Cement Co., Ltd.	Shandong, PRC 17 January 2002	RMB41,460,000	—	95.18	Production and sales of cement and related products
	Weifang Shanshui Packaging Products Co., Ltd.	Shandong, PRC 20 January 2002	RMB500,000	—	99.90	Production and sales of cement packaging materials

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

	Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Attributable equity interest Indirect%	Principal activities
(e)	**Domestic companies established in the PRC** *(continued)*					
	Jinan Shanshui Cement Mechanics Co., Ltd.	Shandong, PRC 12 March 2002	RMB1,500,000	—	99.00	Installation of equipment and spare parts of cement machines
	Changle Shanshui Cement Co., Ltd. ("Changle Shanshui")	Shandong, PRC 30 July 2002	RMB24,700,000	—	99.00	Production and sales of cement; Production of limestone
	Jinan Shanshui Wuliugang Co., Ltd. ("Wuliugang")	Shandong, PRC 28 March 2003	RMB5,000,000	—	99.00	Logistic service and sales of coal
	Binzhou Shanshui Cement Co., Ltd.	Shandong, PRC 30 July 2003	RMB5,000,000	—	99.00	Production and sales of cement
	Shandong Shanshui Cement Industrial Design Development Co., Ltd.	Shandong, PRC 1 August 2003	RMB6,000,000	—	90.00	Development, manufacture, sales and technical support of cement related equipments, and consultation service
	Liaocheng Shanshui Cement Co., Ltd.	Shandong, PRC 1 August 2003	RMB5,000,000	—	99.00	Production and sales of cement
	Gucheng Shanshui Cement Co., Ltd.	Hebei, PRC 4 August 2003	RMB5,000,000	—	99.00	Production and sales of cement
	Dongying Shanshui Cement Co., Ltd.	Shandong, PRC 4 August 2003	RMB5,000,000	—	99.00	Production and sales of cement
	Zibo Shanshui	Shandong, PRC 5 August 2003	RMB60,000,000	—	99.00	Production and sales of cement, clinker and limestone
	Weifang Shanshui Cement Co., Ltd. ("Weifang Shanshui")	Shandong, PRC 29 December 2003	RMB50,000,000	—	100.00	Production and sales of cement and limestone
	Zibo Shuangfeng Shanshui Cement Co., Ltd.	Shandong, PRC 1 July 2004	RMB10,000,000	—	99.00	Production and sales of cement
	Juye Shanshui Cement Co., Ltd.	Shandong, PRC 17 May 2006	RMB10,000,000	—	99.96	Production and sales of cement

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17 INVESTMENTS IN SUBSIDIARIES *(continued)*

	Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest Direct%	Attributable equity interest Indirect%	Principal activities
(e)	**Domestic companies established in the PRC** *(continued)*					
	Dalian Shanshui Cement Co., Ltd. ("Dalian Shanshui")	Liaoning, PRC 17 August 2007	RMB5,000,000	—	100.00	Establishment of cement and clinker production line
	Yishui Shanshui Cement Co., Ltd. ("Yishui Shanshui")	Shandong, PRC 28 September 2007	RMB20,000,000	—	96.00	Establishment of clinker production line
	Yantai Shanshui	Shandong, PRC 22 November 2002	RMB155,500,000	—	100.00	Production and sales of cement
	Zaozhuang Shanshui	Shandong, PRC 28 July 2004	RMB70,000,000	—	100.00	Production and sales of cement
	Qianshan Cement	Liaoning, PRC 5 June 1989	Registered capital of RMB98,840,700 and paid-in capital of RMB71,687,000	—	73.00	Production and sales of cement and concrete
	Gongyuan Cement	Liaoning, PRC 13 July 1998	RMB280,000,000	—	100.00	Production and sales of cement
	Tongliao Gongyuan Cement Co., Ltd.	Inner Mongolia, PRC 2 April 2004	RMB5,000,000	—	100.00	Production and sales of cement
	Benxi Gongyuan Clinker Sales Co., Ltd.	Liaoning, PRC 2 March 2006	RMB500,000	—	100.00	Production and sales of cement
	Benxi Shanshui Gongyuan Transportation Co., Ltd.	Liaoning, PRC 26 February 2008	RMB360,000	—	100.00	Transportation services
	Benxi Shanshui Mechanics and Electric Engineering Co., Ltd.	Liaoning, PRC 10 March 2008	RMB500,000	—	100.00	Installation and maintenance of equipment and spare parts of cement machines
	Benxi Shanshui Gongyuan Packaging Products Co., Ltd.	Liaoning, PRC 11 November 2008	RMB500,000	—	100.00	Production and sales of cement packaging materials

18 OTHER INVESTMENTS

	Note	2008 RMB'000	2007 RMB'000
Available-for-sale investments, at fair value	(a)	**5,529**	17,063
Unquoted equity investments in non-listed companies	(b)	**1,260**	1,260
		6,789	18,323

Notes:

(a) Available-for-sale investments are valued with reference to the trading price at the balance sheet date discounted for its restrictive trading right.

(b) Unquoted equity investments are equity shares of the PRC non-listed companies.

19 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet

	2008 RMB'000	2007 RMB'000
Provision for PRC income tax for the year	**242,217**	51,681
Provisional income tax paid	**(90,079)**	(29,241)
	152,138	22,440

(b) Deferred tax assets and liabilities recognised

The amounts, determined after appropriate offsetting, are as follows:

	2008 RMB'000	2007 RMB'000
Deferred tax assets	**114,303**	54,735
Set off of tax	**(11,692)**	(19,990)
	102,611	34,745
Deferred tax liabilities	**135,338**	157,086
Set off of tax	**(11,692)**	(19,990)
	123,646	137,096

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(Expressed in Renminbi)

19 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

Movements in deferred tax assets and liabilities (prior to offsetting of balances) for the year ended 31 December 2008 are as follows:

	At 1 January 2008 RMB'000	Recognised in profit or loss RMB'000	Recognised in equity RMB'000	Recognised in profit or At 31 December 2008 RMB'000
Deferred tax assets				
Unrealised profits resulted from intra-group transactions	8,092	7,893	—	15,985
Depreciation of property, plant and equipment	8,352	(5,338)	—	3,014
Tax loss carry-forwards	32,018	(28,702)	—	3,316
Impairment losses for property, plant and equipment	202	12,869	—	13,071
Intangible assets amortisation	2,544	(1,016)	—	1,528
Impairment losses for intangible assets	673	(673)	—	—
Write down of inventory	—	1,115	—	1,115
Impairment losses for trade and other receivables	—	2,000	—	2,000
Deferred income	—	64,636	—	64,636
Accrued bonus	2,854	6,252	—	9,106
Change of fair value of interest swap derivatives	—	532	—	532
	54,735	59,568	—	114,303
Deferred tax liabilities				
Accrued staff welfare	1,803	(1,038)	—	765
Change of fair value of available-for-sale investments	4,015	—	(2,884)	1,131
Revaluation surplus of property, plant and equipment	37,614	(7,662)	—	29,952
Revaluation surplus of intangible assets	113,654	(10,164)	—	103,490
	157,086	(18,864)	(2,884)	135,338

19 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

Movements in deferred tax assets and liabilities (prior to offsetting of balances) for the year ended 31 December 2007 are as follows:

	At 1 January 2007 RMB'000	Acquisition of subsidiaries RMB'000	Recognised in profit or loss RMB'000	Recognised in profit or loss due to changes in tax rate RMB'000	Recognised in equity RMB'000	Recognised in equity due to changes in tax rate RMB'000	At 31 December 2007 RMB'000
Deferred tax assets							
Unrealised profits resulted from intra-group transactions	8,580	—	2,102	(2,590)	—	—	8,092
Depreciation of property, plant and equipment	6,752	1,200	2,634	(2,234)	—	—	8,352
Tax loss carry-forwards	3,367	31,959	(2,778)	(530)	—	—	32,018
Impairment losses for property, plant and equipment	266	—	—	(64)	—	—	202
Intangible assets amortisation	—	2,743	(199)	—	—	—	2,544
Impairment losses for intangible assets	—	673	—	—	—	—	673
Accrued bonus	—	—	2,854	—			2,854
	18,965	36,575	4,613	(5,418)	—	—	54,735
Deferred tax liabilities							
Accrued staff welfare	3,519	1,534	(3,130)	(120)	—	—	1,803
Change of fair value of available-for-sale investments	2,322	—	—	—	2,978	(1,285)	4,015
Revaluation surplus of property, plant and equipment	—	37,640	(26)	—	—	—	37,614
Revaluation surplus of intangible assets	—	114,526	(872)	—	—	—	113,654
Revaluation surplus of inventory	—	(152)	152	—	—	—	—
	5,841	153,548	(3,876)	(120)	2,978	(1,285)	157,086

Notes to the Financial Statements

(Expressed in Renminbi)

19 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

As at 31 December 2008, the Group did not recognise deferred tax assets in respect of cumulative tax losses of PRC subsidiaries totalling RMB8,429,000 (2007: RMB33,849,000). It is not probable that future taxable profits generated by these PRC subsidiaries against which the losses can be utilised will be available within five years.

Since the Group could control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC. Therefore, deferred taxation is only provided to the extent that such profits are estimated to be distributed in the foreseeable future.

As at 31 December 2008, the aggregate amount of undistributed profits of the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax was approximately RMB520,614,000.

20 OTHER LONG-TERM ASSETS

	2008 RMB'000
Cost	
At 1 January	—
Transfer from other receivables and prepayments	93,688
Additions	44,396
At 31 December	138,084
Accumulated amortisation and impairment	
At 1 January	—
Amortisation for the year	(4,918)
At 31 December	(4,918)
Carrying amount	133,166

In December 2007, Pioneer Cement entered into a service agreement (the "Service Agreement") with China Northeastern Building Materials Consulting Limited ("Northeastern Consulting") for HKD150,000,000. Under the Service Agreement, Northeastern Consulting will provide the Group with various services from 1 January 2008 to 31 December 2019. As at 31 December 2007, HKD100,000,000 (approximately RMB93,688,000) had been paid and recorded in other receivables and prepayments in the consolidated balance sheets. The rest of the balance had been paid on 4 June 2008. The amounts are amortised over the effective period of various services as stated in the Service Agreement.

21 INVENTORIES

(a) Inventories in the balance sheet comprise:

	2008	2007
	RMB'000	RMB'000
Raw materials	371,645	241,477
Semi-finished goods	79,669	91,010
Finished goods	308,427	112,325
Spare parts	130,878	88,185
	890,619	532,997

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	2008	2007
	RMB'000	RMB'000
Carrying amount of inventories sold	5,917,851	3,372,856
Write down of inventories	(4,519)	—
Reversal of write-down of inventories	981	15
	5,914,313	3,372,871

Notes to the Financial Statements

(Expressed in Renminbi)

22 TRADE AND BILLS RECEIVABLE

	2008 RMB'000	2007 RMB'000
Bills receivable	**94,638**	319,861
Trade debtors	**279,677**	116,462
Less: allowance for doubtful debts (Note 22(b))	**(22,534)**	(7,069)
	351,781	429,254

(a) Ageing analysis

An ageing analysis of trade and bills receivable (net of allowance for bad and doubtful debts) is as follows:

	2008 RMB'000	2007 RMB'000
Current	**265,750**	392,894
Less than 3 month past due	**39,855**	12,443
3 to 6 months past due	**23,265**	1,903
6 to 12 months past due	**13,590**	5,804
More than 12 months past due	**9,321**	16,210
Amount past due	**86,031**	36,360
	351,781	429,254

All of the trade and bills receivable (net of impairment losses for bad and doubtful debts) are expected to be recovered within one year. The detailed credit policy of bills receivable and trade debtors are set out in Note 33(a).

22 TRADE AND BILLS RECEIVABLE *(continued)*

(b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see Note 1 (l)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2008	2007
	RMB'000	RMB'000
At 1 January	**7,069**	12,471
Impairment loss recognised	**20,127**	1,203
Written back	**(4,662)**	(6,605)
At 31 December	**22,534**	7,069

At 31 December 2008, the Group's trade and bills receivable of RMB172,925,000 (2007: RMB28,696,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, the amounts of allowances for bad and doubtful debts of RMB22,534,000 (2007: RMB7,069,000) were recognised. The Group does not hold any collateral over these balances.

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(Expressed in Renminbi)

22 TRADE AND BILLS RECEIVABLE *(continued)*

(c) Trade and bills receivable that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2008	2007
	RMB'000	RMB'000
Neither pass due nor impaired	**196,664**	392,894
Less than 3 month past due	**1,880**	12,443
3 to 6 months past due	**2,727**	1,903
Over 6 months past due	**119**	387
Past due but not impaired	**4,726**	14,733
	201,390	407,627

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good credit track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

23 OTHER RECEIVABLES AND PREPAYMENTS

	Note	2008 RMB'000	2007 RMB'000
Prepayments for raw materials		**126,509**	127,580
Prepayments to Northeastern Consulting	20	**—**	93,688
Prepayments for long-lived assets	(i)	**224,771**	276,478
VAT recoverable		**53,792**	33,079
Financial guarantee received		**33,450**	65,961
Amount due from related parties	(ii)	**5,897**	8,894
Amount due from third parties	(iii)	**131,814**	251,875
Others		**6,578**	20,381
		582,811	877,936

Notes:

(i) As at 31 December 2008, prepayment for long-lived assets totalling RMB224,771,000 (2007: RMB276,478,000) includes prepayments for construction of plant and equipment of RMB183,520,000 (2007: RMB180,482,000), prepayments for acquisition of land use rights of RMB31,251,000 (2007: RMB53,996,000), and prepayments for acquisition of mining rights of RMB10,000,000 (2007: RMB42,000,000).

(ii) Amount due from related parties mainly represents receivables from sales of clinker and raw materials, loans to related parties and uncollected rental fees. The receivables are unsecured, interest free and recoverable on demand. As at 31 December 2008, amount due from related parties totalling RMB5,897,000 (2007: RMB8,894,000) includes receivables arising from sales of clinker and raw materials of RMB4,171,000 (2007: RMB5,202,000), a related-party loan of RMBNil (2007: RMB3,000,000), uncollected rental fee of RMB1,090,000 (2007: RMB692,000), and trademark fees and management fees of RMB636,000 (2007: Nil). The related-party loan was fully repaid by the borrower in February 2008. Further details are set out in Note 36(c).

(iii) The balance as at 31 December 2008 mainly represents amounts due from third parties of Qianshan Cement, Kangda Cement, Kangda Mining and Kangda Products.

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24 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,248,414**	721,265	**292,979**	—
Pledged bank deposits (i)	**32,435**	7,737	**—**	—
	1,280,849	729,002	**292,979**	—
Less: Pledged bank deposits	**(32,435)**	(7,737)	**—**	—
Cash and cash equivalents	**1,248,414**	721,265	**292,979**	—

(i) Bank deposits of RMB32,435,000 as at 31 December 2008 (2007: RMB7,737,000) were pledged to banks as security for certain of the Group's banking facilities in relation to bills payable (see Note 26). The pledged bank deposits will be released upon the expiry of the relevant banking facilities.

25 LOANS AND BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	Note	**2008**	2007
		RMB'000	RMB'000
Long-term interest-bearing borrowings:			
Bank loans - Secured	(i)	**2,436,700**	2,018,620
Bank loans - Unsecured	(ii)	**300,000**	—
Loan from government - Unsecured	(iii)	**10,000**	10,000
		2,746,700	2,028,620
Less: Current portion of long-term bank loans	(i)	**(1,071,800)**	(535,920)
Interest-bearing borrowings, less current Portion		**1,674,900**	1,492,700
Representing:			
Bank loans - Secured		**1,364,900**	1,482,700
Bank loans - Unsecured		**300,000**	—
Loan from government - Unsecured		**10,000**	10,000
Interest-bearing borrowings, less current Portion		**1,674,900**	1,492,700

25 LOANS AND BORROWINGS *(continued)*

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows: *(continued)*

The long-term borrowings less current portion were repayable as follows:

	Note	2008 RMB'000	2007 RMB'000
After one year but within two years		**1,098,900**	957,800
After two years but within five years		**568,727**	526,718
After five years		**7,273**	8,182
Total		**1,674,900**	1,492,700
Short-term interest-bearing borrowings:			
Bank loans - Secured	(iv)	**1,342,000**	1,612,268
Bank loans - Unsecured	(ii)	**300,000**	—
Loan from third parties - Unsecured	(vi)	**—**	289,500
		1,642,000	1,901,768
Add: Current portion of long-term bank loans	(i)	**1,071,800**	535,920
Short-term and current portion of interest-bearing borrowings:		**2,713,800**	2,437,688

	Note	2008 RMB'000	2007 RMB'000
Representing:			
Bank loans - Secured		**2,413,800**	2,148,188
Bank loans - Unsecured		**300,000**	—
Loan from third parties - Unsecured		**—**	289,500
Short-term and current portion of interest-bearing borrowings:		**2,713,800**	2,437,688

Notes to the Financial Statements

(Expressed in Renminbi)

25 LOANS AND BORROWINGS *(continued)*

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows: *(continued)*

Notes:

(i) Loans of RMB44,500,000 (2007: RMB44,500,000) as at 31 December 2008, were secured by Jinan Shanshui Group Co., Ltd. ("Jinan Shanshui") as disclosed in Note 36(c). Loans of RMB652,000,000 (2007: RMB804,000,000) as at 31 December 2008, were guaranteed by third party. Other balances were either pledged by certain items of property, plant and equipment and land use rights as disclosed in Notes 13 and 14, or guaranteed by companies within the Group.

(ii) Non-current bank loans and current bank loans with amount of RMB300,000,000 (2007: Nil) respectively are borrowed on credit.

(iii) The government loan was received by Gongyuan Cement for constructing an environmental friendly production line. The loan is unsecured, bears interest at one-year PRC deposit interest rate plus 0.3% and is repayable in 2021.

(iv) Bank loan of RMB180,000,000 (2007: RMB540,000,000) as at 31 December 2008 were guaranteed by third parties, the remaining current secured bank loans as at 31 December 2008 were pledged by certain items of property, plant and equipment and land use rights as disclosed in Notes 13 and 14, or guaranteed by companies within the Group.

(v) Current secured bank loans carried annual interest rates ranging from 5.58% to 8.75% (2007: 6.12% to 8.48%) for the year ended 31 December 2008. Current unsecured bank loans carried annual interest rates at 7.47% (2007: Nil) for the year ended 31 December 2008.

(vi) Current unsecured third parties loans carried interest at annual rates ranging from 6.73% to 7.88% (2007: 6.45% to 8.75%) as at 31 December 2008.

The balance represents loans due to predecessor equity holders of the acquired subsidiaries including Yantai Shanshui and Zaozhuang Shanshui, which were pledged by equity interests of Yantai Shanshui and Zaozhuang Shanshui. The amounts were settled the balance in 2008.

(vii) Pursuant to the supplementary agreement entered between Shandong Shanshui and Bank of China Jinan Quancheng Branch on 28 October 2008, the interest rate of a long-term bank loan with principal of RMB 200,000,000 was decreased to 95% of the basic long-term loan interest rate issued by the PBOC. The new interest rate was effective on 28 October 2008. Pursuant to the confirmation issued by Bank of China Jinan Quancheng Branch on 23 October 2008, the bank confirmed that if Shandong Cement Factory continues to renew a bank loan with principal of RMB100,000,000 on the maturity date in October 2009, the interest rate for the renewed bank loan in 2009 will be decreased to 90% of the basic long-term loan interest rate issued by the PBOC.

25 LOANS AND BORROWINGS *(continued)*

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows: *(continued)*

Some of the Group's banking facilities are subject to the fulfilment of covenants relating to certain subsidiaries' balance sheet ratios or the aggregate external guarantee limit, as are commonly found in lending arrangements with financial institutions, or conditions of assets relating to production of cements. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance of these covenants.

The balance sheet ratio of certain subsidiaries and the aggregate external guarantee provided by a subsidiary exceeded certain limits set out in the covenant of the loan agreements, with the Bank of China Jinan Quancheng Branch and China Construction Bank Jinan Huaiyin Branch. The relevant outstanding loan balance was RMB255,000,000 (2007: RMB488,000,000) as at 31 December 2008. As at the date of this report, the Group has obtained confirmation from the abovementioned banks that the breaches of the ratio and guarantee would not trigger early repayment of these loans.

Qianshan Cement was acquired by the Group on 28 December 2007. At 31 December 2008, Qianshan Cement had past due long-term bank loans totalling RMB209,000,000 (2007: RMB283,188,000). The Group is working with these lenders to restructure the outstanding loans and interest payments.

(b) The analysis of the carrying amount of loans from equity holders is as follows:

	Note	**2008** **RMB'000**	2007 RMB'000
Long-term loans from equity holders			
– Secured	(i)	**289,156**	365,230
Less: Current portion of loans from equity holders		**(52,574)**	(56,189)
Loans from equity holders, less current portion		**236,582**	309,041

Notes:

(i) Anqiu Shanshui and Pingyin Shanshui entered into loan agreements with one of the Company's equity shareholders, International Finance Corporation totalling USD50,000,000 in 2006.

The loans bear interest at London Inter Bank Offered Rate ("LIBOR") plus 2% per annum and are repayable bi-annually from 2008 to 2014. These loans are secured by certain items of property, plant and equipment of the subsidiaries as disclosed in Notes 13 and 14.

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(Expressed in Renminbi)

25 LOANS AND BORROWINGS *(continued)*

(c) Convertible notes

	Liability portion RMB'000	Equity portion RMB'000	Total RMB'000
Proceeds from issuance of convertible notes on 21 September 2007	85,171	64,929	150,100
Transaction costs	(205)	(155)	(360)
Net proceeds	84,966	64,774	149,740
Interest charged	2,856	—	2,856
Foreign exchange gain	(2,364)	—	(2,364)
At 31 December 2007	85,458	64,774	150,232
At 1 January 2008	**85,458**	**64,774**	**150,232**
Interest charged	**9,945**	**—**	**9,945**
Foreign exchange gain	**(5,826)**	**—**	**(5,826)**
At 31 December 2008	**89,577**	**64,744**	**154,351**

On 30 November 2005, Shanshui Cement Hong Kong signed a convertible notes purchase agreement with the minority equity shareholders which agreed to issue convertible notes amounting to USD20,000,000 to the minority equity shareholders (the "notes holders"). The convertible notes were issued by the Company on 21 September 2007 with zero coupon rate.

According to the terms of the convertible notes, the notes holders may elect to require the Company to redeem in whole or in part the convertible notes at a price equal to the outstanding principal amount at any time after 2 July 2011. The convertible notes are convertible into a total of 191,607 of the Company's ordinary shares (enlarged to 114,964,200 shares after the capitalisation issues) of USD0.01 each at a conversion price of USD104.4 per share six months after the completion of an initial public offering. If the Company declares any dividends or distribution on its shares before the notes holders elect to exercise the conversion rights, the notes holders are entitled to receive payments equal to the dividend payable for each share multiplied by the total number of shares issuable upon exercise of the conversion rights.

26 TRADE AND BILLS PAYABLE

	2008 RMB'000	2007 RMB'000
Trade payables	**1,167,991**	821,251
Bills payable	**40,000**	14,280
	1,207,991	835,531

An aging analysis of trade and bills payables is set out below:

	2008 RMB'000	2007 RMB'000
Within 3 months	**955,504**	495,741
Over 3 months but less than 6 months	**113,937**	157,750
Over 6 months but less than 12 months	**36,195**	133,828
Over 12 months	**102,355**	48,212
	1,207,991	835,531

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(Expressed in Renminbi)

27 OTHER PAYABLES AND ACCRUED EXPENSES

		The Group	
	Note	**2008**	2007
		RMB'000	RMB'000
Financial guarantee issued		**33,450**	66,460
Customer deposits and receipts in advance		**190,529**	233,878
Accrued payroll and welfare	(i)	**182,639**	157,586
Taxes payable other than income tax		**57,247**	70,313
Staff compensation and termination provisions	29(b)	**206,088**	209,930
Amount due to related parties		**5,154**	—
Payable to third parties of acquired subsidiaries	(ii)	**114,000**	165,373
Acquisition consideration payable	(iii)	**14,163**	294,299
Lease prepayment payable	(iv)	**23,308**	239,148
Interest rate swaps	(v)	**2,949**	819
Other acquisition consideration payable	(vi)	**9,252**	9,252
Construction retention payable		**17,221**	13,328
Water and electricity expenses		**19,789**	32,680
Accrued interest expenses		**36,022**	69,707
Current portion of long-term payables	31	**52,950**	62,770
Other accrued expenses and payables	(vii)	**93,180**	68,676
		1,057,941	1,694,219

27 OTHER PAYABLES AND ACCRUED EXPENSES *(continued)*

	The Company	
	2008	2007
	RMB'000	RMB'000
Other accrued expenses and payables	**525**	—

Notes:

(i) Accrued payroll and welfare represents payable to staff in respect of staff payroll, other social insurance and welfare payable, among which RMB50,768,000 (2007: RMB53,038,000) as at 31 December 2008 mainly represent housing fund subsidy payables to staff of Weifang Shanshui, Changle Shanshui and Shandong Cement Factory. The payables arose from acquisitions of the respective companies by Shandong Shanshui, and will be gradually paid to the staff of the respective companies.

(ii) The balance represents payable to third parties of acquired subsidiaries, which mainly consists of payable to a third party of Qianshan Cement of RMB48,758,000 (2007: RMB60,355,000) and to a third party of Gongyan Cement of RMB4,107,000 (2007: RMB36,518,000), and current account with former related parties of Kangda Cement Group of RMB61,136,000 (2007: RMB66,653,000).

(iii) The balance as at 31 December 2008 mainly represents Yantai Shanshui of RMB Nil (2007: RMB50,000,000) and the Gongyuan Cement Group of RMB10,000,000 (2007: RMB240,136,000).

(iv) This represents the unpaid balance for the land lease prepayments. As at 31 December 2007, it mainly represents land lease prepayment of Qianshan Cement with an amount of RMB211,289,000 which had been settled on January 2008.

(v) In 2007, the Group entered into three interest rate swap agreements with the Bank of China and the Agricultural Bank of China respectively. The Group conducted the swaps solely for investment purpose. In September 2008, the Group terminated the two interest rate swap agreements with the Bank of China which resulted in a loss of RMB4,334,000 at the termination date (See note 6(a)). As at 31 December 2008, the fair value for the remaining interest rate swap with the Agricultural Bank of China was RMB2,949,000 (2007: RMB819,000) deficit.

(vi) The balance represents consideration payable to the local government of Qianshan, which was taken over from predecessor equity holders of Qianshan Cement by the Company in 2007.

(vii) Other accrued expenses and payables represent the balance of miscellaneous payables, such as accrued transportation expenses, repair and maintenance payable and rental fees.

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28 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2008, the Group had obligations under finance lease repayable as follows:

	2008		2007	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**1,133**	**1,200**	—	—
After 1 year but within 2 years	**1,069**	**1,200**	—	—
After 2 years but within 5 years	**2,861**	**3,600**	—	—
After 5 years	**3,120**	**4,800**	—	—
	7,050	**9,600**	—	—
Total	**8,183**	**10,800**	—	—
Less: total future interest expenses		**2,617**		—
Present value of lease obligations		**8,183**		—

29 EMPLOYEE BENEFITS

(a) Defined contribution retirement plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial government authorities for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 24% of the salaries, wages, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

The Group has no other material obligation for the payment of pension benefits associated with these plans and other post-retirement beyond the annual contributions described above.

(b) Staff compensation and termination provision

	Note	**2008**	2007
		RMB'000	RMB'000
For staff of			
– Shandong Shanshui	(i)	**136,752**	137,019
– Weifang Shanshui	(ii)	**43,339**	44,749
– Qianshan Cement	(iii)	**25,997**	28,162
Amount payable	27	**206,088**	209,930

Notes:

(i) In accordance with a contractual agreement with Jinan Shanshui dated 10 March 2005, the Group committed to the termination compensation of RMB146,054,000 to 3,581 employees as part of the restructuring plan of Jinan Shanshui. Following the agreement, the Group recognised a provision of RMB146,054,000 for expected compensation costs. Estimated costs and the settlement schedule were based on the terms of the Jinan Shanshui restructuring plan agreed with the Jinan Municipal Government in 2004.

(ii) In connection with the acquisition of Weifang Shanshui on 29 December 2003 and pursuant to Wei Cai Guo Gu [2003] No. 44 issued by the local finance bureau, the Group is responsible for the related compensation and termination obligation of RMB47,229,000.

(iii) Pursuant to the Capital Injection Agreement entered into with Jiang Ming and Wang Yinlong, the Group shall be responsible for the staff compensation and termination costs resulting from the restructuring of Xiaotun Cement Plant, the predecessor of Qianshan Cement.

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29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations

	2008 RMB'000	2007 RMB'000
For staff of		
– Shandong Shanshui	**61,644**	65,292
– Weifang Shanshui	**5,359**	5,575
– Qianshan Cement	**28,189**	24,442
– Gongyuan Cement	**99,438**	88,590
Recognised liability for defined benefit plans	**194,630**	183,899

Net liabilities recognised in the consolidated balance sheet represent:

	2008 RMB'000	2007 RMB'000
Present value of the obligations	**213,520**	185,589
Unrecognised actuarial losses	**(18,890)**	(1,690)
Recognised liability for defined benefit plans	**194,630**	183,899

The balance represents the provision for the post-employment benefits according to the non-cancellable staff relocation plans agreed in respect of Shandong Shanshui, Weifang Shanshui, Qianshan Cement (excluding the compensation stated in Note 29(b)) and Gongyuan Cement. The Group's obligations in respect of the defined benefit plans at the balance sheet date were reviewed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, which is a member of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligations at the balance sheet date, that portion is amortised within the estimated remaining life (any junior family member to age of 18) of the employees in the consolidated income statements.

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Movements in the defined benefit obligations are set out as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**183,899**	77,074
Payments	**(16,629)**	(8,997)
Interest expense	**8,060**	2,650
Actuarial loss recognised in consolidated income statement	**1,010**	140
Additions through business combinations	**—**	113,032
Additional obligation based on the change of benefits	**18,290**	—
At 31 December	**194,630**	183,899

Expenses recognised in the consolidated income statement are as follows:

	2008 RMB'000	2007 RMB'000
Interest expense	**8,060**	2,650
Actuarial loss	**1,010**	140
	9,070	2,790

Interest expense and actuarial loss arising from defined benefit obligations are recognised in the following line items in the consolidated income statement:

	2008 RMB'000	2007 RMB'000
Finance expenses	**8,060**	2,650
Administrative expenses	**1,010**	140
	9,070	2,790

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(Expressed in Renminbi)

29 EMPLOYEE BENEFITS *(continued)*

(c) Defined benefit obligations *(continued)*

Principal actuarial assumptions at each balance sheet date:

	2008	2007
Discount rate	3.25%	4.50%
Annual growth rate of living expenditure	4%-8%	4%-8%
Reimbursement of employee dependants	5.00%	5.00%
Average expected future lifetime of eligible employees	13 years	12 years

30 DEFERRED INCOME

	2008 RMB'000	2007 RMB'000
At 1 January	39,886	24,280
Additions	260,707	16,794
Recognised in consolidated income statement	(4,270)	(1,188)
At 31 December	296,323	39,886

Deferred income mainly represents the PRC local government grants received from relative PRC authorities for fixed asset investment, such as cement and clinker plants and residual heat generation plants. The subsidies are recognised in the consolidated income statement over the estimated useful lives of the respective assets. There are no unfulfilled conditions and contingencies relating to the grants.

31 LONG-TERM PAYABLES

	2008 RMB'000	2007 RMB'000
Acquisition consideration payable (Note)	345,937	405,902
Others	12,846	8,842
	358,783	414,744

Note: This balance represents the consideration payable for the acquisition of Kangda Cement Group. The nominal value of consideration is RMB465,585,000 and is payable over a period of four years. The amount has been discounted to present value as at 31 December 2008.

32 CAPITAL AND RESERVE

(a) The Group

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000 (viii)	Statutory reserves RMB'000 (ix)	Other reserves RMB'000 (x)	Exchange reserve RMB'000 (xi)	Fair value reserve RMB'000 (xii)	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007		10	413,238	112,877	(73,703)	(73)	4,673	34,603	491,625	19,056	510,681
Nominal value of share capital of a subsidiary acquired	(ii)	65	(413,238)	—	413,173	—	—	—	—	—	—
Issue of shares	(iii)	169	1,765,499	—	—	—	—	—	1,765,668	—	1,765,668
Increase in minority interests attributable to acquisition of subsidiaries and contribution to subsidiaries	(iv)	—	—	—	—	—	—	—	—	19,762	19,762
Profit for the year		—	—	—	—	—	—	211,948	211,948	2,631	214,579
Available-for-sale investments											
– fair value change		—	—	—	—	—	7,551	—	7,551	37	7,588
– transfer upon disposal		—	—	—	—	—	(252)	—	(252)	(1)	(253)
Equity portion of convertible notes	25(c)	—	—	—	64,774	—	—	—	64,774	—	64,774
Exchange differences		—	—	—	—	(9,821)	—	—	(9,821)	—	(9,821)
Appropriations		—	—	32,255	—	—	—	(32,255)	—	—	—
At 31 December 2007		244	1,765,499	145,132	404,244	(9,894)	11,972	214,296	2,531,493	41,485	2,572,978

Notes to the Financial Statements

(Expressed in Renminbi)

32 CAPITAL AND RESERVE *(continued)*

(a) The Group *(continued)*

	Note	Attributable to equity shareholders of the Company									
		Share capital	Share premium	Statutory reserves	Other reserves	Exchange reserve	Fair value reserve	Retained earnings	Subtotal	Minority interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(viii)	(ix)	(x)	(xi)	(xii)				
At 1 January 2008		244	1,765,499	145,132	404,244	(9,894)	11,972	214,296	2,531,493	41,485	2,572,978
Issue of shares	(vi)	185,128	1,533,854	–	–	–	–	–	1,718,982	–	1,718,982
Increase in minority interests attributable to subsidiaries		–	–	–	–	–	–	–	–	550	550
Profit for the year		–	–	–	–	–	–	539,357	539,357	9,854	549,211
Liquidation of a dormant subsidiary	(vii)	–	–	–	–	–	–	–	–	(6,197)	(6,197)
Acquisition of additional interest in a subsidiary		–	–	–	–	–	–	–	–	(677)	(677)
Available-for-sale investments – fair value change		–	–	–	–	–	(8,576)	–	(8,576)	(37)	(8,613)
Exchange differences		–	–	–	–	(14,930)	–	–	(14,930)	–	(14,930)
Appropriations		–	–	87,656	–	–	–	(87,656)	–	–	–
Dividends		–	–	–	–	–	–	(205,755)	(205,755)	–	(205,755)
At 31 December 2008		185,372	3,299,353	232,788	404,244	(24,824)	3,396	460,242	4,560,571	44,978	4,605,549

32 CAPITAL AND RESERVE *(continued)*

(b) The Company

	Share capital RMB'000	Share premium RMB'000 (viii)	Other reserves RMB'000 (x)	Exchange reserve RMB'000 (xi)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2007	—	—	—	—	—	—
Nominal value of share capital of a subsidiary acquired (ii)	75	—	413,173	—	—	413,248
Equity portion of convertible notes (see Note 25(c))	—	—	64,774	—	—	64,774
Issue of share (iii)	169	1,765,499	—	—	—	1,765,668
Loss for the year	—	—	—	—	(2,856)	(2,856)
Exchange differences	—	—	—	(48,573)	—	(48,573)
At 31 December 2007	244	1,765,499	477,947	(48,573)	(2,856)	2,192,261
At 1 January 2008	**244**	**1,765,499**	**477,947**	**(48,573)**	**(2,856)**	**2,192,261**
Issue of share	**185,128**	**1,533,854**	**—**	**—**	**—**	**1,718,982**
Loss for the year	**—**	**—**	**—**	**—**	**(7,520)**	**(7,520)**
Exchange differences	**—**	**—**	**—**	**(119,986)**	**—**	**(119,986)**
Dividend	**—**	**—**	**—**	**—**	**(205,755)**	**(205,755)**
At 31 December 2008	**185,372**	**3,299,353**	**477,947**	**(168,559)**	**(216,131)**	**3,577,982**

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32 CAPITAL AND RESERVE *(continued)*

(c) Share capital

	2008		2007	
	Number of shares	**RMB equivalent RMB'000**	Number of shares	RMB equivalent RMB'000
Authorised:				
Ordinary shares of the Company of USD0.01 each (i)	**10,000,000,000**	**701,472**	1,000,000,000	80,220
Ordinary shares of the Company, issued and fully paid:				
At 1 January	**3,254,200**	**244**	1	—
Issuance of shares:				
– Share Swap of share capital of a subsidiary acquired (ii)	**—**	**—**	999,999	75
– Issuing new shares (iii)	**—**	**—**	2,254,200	169
– Capitalisation issue (v)	**1,949,265,800**	**133,797**	—	—
– By Global offering and Placing(vi)	**650,840,000**	**44,672**	—	—
– Exercise of the Over-allotment Option (vi)	**97,626,000**	**6,659**	—	—
At 31 December	**2,700,986,000**	**185,372**	3,254,200	244

32 CAPITAL AND RESERVE *(continued)*

Notes:

(i) The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 26 April 2006 with an authorised share capital of USD10,000,000 divided into 1,000,000,000 shares of USD0.01 each, of which one subscriber share was issued to MS Cement Limited.

Pursuant to the written resolutions of the shareholders of the Company passed on 14 June 2008, the authorised share capital of the Company was increased from USD10,000,000 to USD100,000,000 by the creation of additional 9,000,000,000 shares of USD0.01 each.

(ii) On 6 September 2007, the existing equity holders of Shanshui Cement Hong Kong exchanged all of their respective ordinary shares with a nominal value of H.K. Dollar (HKD) 0.01 each in Shanshui Cement Hong Kong for an equivalent number of the Company's ordinary shares (the "Share Swap") with a nominal value of U.S. Dollar (USD) 0.01 each (newly issued 999,999 ordinary shares plus one ordinary share issued previously) on a pro rata basis. Following the Share Swap, the Company replaced Shanshui Cement Hong Kong as a holding company of the Group.

(iii) After the Share Swap, the Company conducted a rights offering by allotting and issuing to its existing equity shareholders, on a pro rata basis, an aggregate of 2,254,200 shares with a nominal value USD0.01 each in the capital of the Company for a total consideration of USD235,294,000.

(iv) In 2007, the Group acquired Qianshan Cement, in which minority equity holders own 27% equity interests. Furthermore, in 2007, minority equity holders also contributed capital of RMB800,000 and RMB20,000 to Yishui Shanshui and Wuliugang respectively.

(v) Pursuant to the written resolutions of the shareholders of the Company passed on 14 June 2008, the Company allotted and issued a total of 1,949,265,800 ordinary shares of USD0.01 each credited as fully paid at par to the holders of the Company at the close of business on 14 June 2008 in proportion to their respective then existing shareholdings.

(vi) On 4 July 2008, 650,840,000 ordinary shares of USD0.01 each were issued and offered in connection with its global offering and the commencement of the listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited. The proceeds of HKD202,782,000 (equivalent to RMB178,469,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD1,619,720,000 (equivalent to RMB1,425,515,000) before the share listing expenses of HKD132,007,000 (equivalent to RMB116,230,000), were credited to the share premium account.

On 25 July 2008, the Global Coordinator fully exercised the over-allotment option on behalf of the International Underwriters. The Company allotted and issued an aggregate of 97,626,000 additional shares, representing 15% of the shares initially issued under the global offering. The proceeds of HKD7,614,000 (equivalent to RMB6,659,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD265,739,000 (equivalent to RMB232,358,000) before the share listing expenses of HKD8,908,000 (equivalent to RMB7,789,000), were credited to the share premium account.

Notes to the Financial Statements

(Expressed in Renminbi)

32 CAPITAL AND RESERVE *(continued)*

Notes: *(continued)*

(vii) In February 2008, the Group liquidated a dormant subsidiary, Qingdao Shanshui Cement Company Limited, and returned the paid-in capital to the minority equity holders.

(viii) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

(ix) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

(x) Other reserves

Other reserves include:

(a) the differences of consideration over the net assets of subsidiaries acquired under common control in 2005;

(b) the differences of consideration over the net assets of minority interests acquired by Shandong Shanshui in 2005;

(c) the difference between the nominal value of the share capital of the Company and the nominal value of the share capital and share premium of Shanshui Cement Hong Kong on the Share Swap; and

(d) the equity portion of the convertible notes issued by the Company in 2007 as disclosed in Note 25(c).

(xi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(xii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

32 CAPITAL AND RESERVE *(continued)*

Notes: *(continued)*

(xiii) Distributable reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

At 31 December 2008, the Company had RMB2,914,663,000 available for distribution to equity shareholders of the Company (2007: RMB1,714,070,000).

(xiv) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all loans and borrowings as well as convertible notes, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity attributable to equity holders of the Company, as shown in the consolidated balance sheet, plus net debt. The Group may adjust the amount of dividends paid to equity holders, issue new shares, return capital to shareholders or sell assets to reduce debt.

Notes to the Financial Statements

(Expressed in Renminbi)

32 CAPITAL AND RESERVE *(continued)*

Notes: *(continued)*

(xiv) Capital management *(continued)*

The gearing ratio is as follows:

	Note	The Group 2008 RMB'000	The Group 2007 RMB'000
Current liabilities:			
Short-term and current portion of interest-bearing borrowings	25(a)	**2,713,800**	2,437,688
Current portion of loans from equity holders	25(b)	**52,574**	56,189
		2,766,374	2,493,877
Non-Current liabilities:			
Interest-bearing borrowings, less current portion	25(a)	**1,674,900**	1,492,700
Loans from equity holders, less current portion	25(b)	**236,582**	309,041
Convertible notes	25(c)	**89,577**	85,458
		2,001,059	1,887,199
Total debt		**4,767,433**	4,381,076
Less: Cash and cash equivalents	24	**(1,248,414)**	(721,265)
Net debt		**3,519,019**	3,659,811
Equity attributable to equity shareholders of the Company		**4,560,571**	2,531,493
Total capital		**8,079,590**	6,191,304
Gearing ratio		**43.6%**	59.1%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The risks are limited by the Group's finance management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Generally, the Group requires full payment upon delivery of goods for sales of cement, clinker and bubble bricks. Credit sales with general credit period of 30 to 60 days are occasionally allowed to certain selected customers with good credit histories and significant transaction amount. Settlement with bank acceptance notes with maturity within three to six months is also acceptable. For sales of pipes and concrete, the Group allows a credit period ranging from 90 days to 180 days.

In respect of trade and bills receivable for sales of cement, clinker and bubble bricks, individual credit evaluations are only performed when the customers required credit. These evaluations focus on the customer's construction project size, the customer's payment history take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than two months past due are requested to settle all outstanding balances before further credit is granted.

In respect of trade and bills receivable for sales of pipes and concrete, individual credit evaluations are performed on all customers requiring credit over a certain amount. The evaluation method is similar to the above. Debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted.

The Group generally does not require collateral from customers on credit.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 11% (2007: 0.4%) and 15% (2007: 4%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in Note 35, the Group does not provide any other guarantees which would expose the Group to credit risk.

Notes to the Financial Statements

(Expressed in Renminbi)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the holding company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Group

	2008 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	more than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Short-term bank loans and current portion of long-term bank loans (Note 25(a))	2,943,287	—	—	—	2,943,287	2,713,800
Long-term bank loans (Note 25(a))	—	1,182,559	582,786	—	1,765,345	1,664,900
Loans from government (Note 25(a))	255	255	3,423	8,107	12,040	10,000
Loans from third parties (Note 25(a))	—	—	—	—	—	—
Loans from equity holders (Note 25(b))	62,448	60,952	171,040	26,775	321,215	289,156
Convertible notes (Note 25(c))	—	—	136,692	—	136,692	89,577
Trade and bills payable (Note 26)	1,105,636	84,364	17,991	—	1,207,991	1,207,991
Other payables and accrued expense (Note 27)	1,054,993	—	—	—	1,054,993	1,054,993
Interest rate swaps (Note 27)	2,949	—	—	—	2,949	2,949
Current tax liabilities (Note 19(a))	152,138	—	—	—	152,138	152,138
Obligation under finance leases (Note 28)	1,200	1,200	3,600	4,800	10,800	8,183
Long-term payables (Note 31)	3,000	194,192	232,573	200	429,965	358,783
	5,325,906	1,523,522	1,148,105	39,882	8,037,415	7,552,470

Notes to the Financial Statements

(Expressed in Renminbi)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Group (continued)

	2007 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	more than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Short-term bank loans and current portion of long-term bank loans (Note 25(a))	2,280,748	—	—	—	2,280,748	2,148,188
Long-term bank loans (Note 25(a))	—	1,028,159	543,093	—	1,571,252	1,482,700
Loans from government (Note 25(a))	444	444	3,110	9,998	13,996	10,000
Loans from third parties (Note 25(a))	295,269	—	—	—	295,269	289,500
Loans from equity holders (Note 25(b))	81,805	77,449	208,050	90,354	457,658	365,230
Convertible notes (Note 25(c))	—	—	146,092	—	146,092	85,458
Trade and bills payable (Note 26)	787,319	22,006	26,206	—	835,531	835,531
Other payables and accrued expense (Note 27)	1,693,400	—	—	—	1,693,400	1,693,400
Interest rate swaps (Note 27)	819	—	—	—	819	819
Current tax liabilities (Note 19(a))	22,440	—	—	—	22,440	22,440
Obligation under finance leases (Note 28)	—	—	—	—	—	—
Long-term payables (Note 31)	—	63,000	468,200	—	531,200	414,744
	5,162,244	1,191,058	1,394,751	100,352	7,848,405	7,348,010

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Company

	2008 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**1-2 years RMB'000**	**2-5 years RMB'000**	**more than 5 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Convertible notes (Note 25(c))	**—**	**—**	**136,692**	**—**	**136,692**	**89,577**

The Company

	2007 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	more than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Convertible notes (Note 25(c))	—	—	146,092	—	146,092	85,458

(c) Interest rate risk

Cash and cash equivalents, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. The Group does not anticipate significant impact to cash and cash equivalents and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in Note 25. The Group's interest rate profile as monitored by management is set out in (i) below.

Notes to the Financial Statements

(Expressed in Renminbi)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing borrowings at the balance sheet date.

The Group

	2008		2007	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Short-term Bank loans	5.58%~8.75%	823,000	6.39%~8.48%	385,000
Long-term Bank loans	6.30%~6.75%	112,000	5.85%~9.36%	164,000
Loans from third parties	6.73%~9.88%	—	6.45%~8.75%	289,500
		935,000		838,500
Variable rate borrowings:				
Short-term Bank loans	5.58%~7.47%	819,000	6.12%~8.48%	1,227,268
Long-term Bank loans	5.40%~9.36%	2,624,700	5.40%~9.36%	1,854,620
Loans from equity holders	5.13%~6.83%	289,156	6.60%~7.41%	365,230
Loans from government	2.55%~4.44%	10,000	2.82%~4.44%	10,000
		3,742,856		3,457,118
Total borrowings		4,677,856		4,295,618
Net fixed rate borrowings as a percentage of total borrowings		20%		20%

The interest rate of the variable rate borrowing of the Group is based on the base rate announced by the People's Bank of China or applicable market rates.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB48,254,000 (2007: RMB39,463,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through cash balances and borrowings that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars and United State dollars.

The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(ii) Recognised assets and liabilities

In respect of payment for foreign currency borrowings regulated in the loan contracts, the Group foreign currencies at spot rates where the payment made.

Except for the loans equity holders (see Note 25(b)) and convertible notes (see Note 25(c)), all the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the Renminbi. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

Notes to the Financial Statements

(Expressed in Renminbi)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(iii) Exposure to currency risk (continued)

The Group

	Exposure to foreign currencies (expressed in Renminbi)			
	2008		2007	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**1,465**	**361,742**	46,835	538
Loans from equity holders	**—**	**(289,156)**	—	(365,230)
Convertible notes	**—**	**(89,577)**	—	(85,458)
Other payables and accrued expense	**—**	**(4,576)**	—	—
Net exposure arising from recognised assets and liabilities	**1,465**	**(21,567)**	46,835	(450,150)

The Company

	Exposure to foreign currencies (expressed in Renminbi)			
	2008		2007	
	HKD	**USD**	HKD	USD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**1,460**	**278,382**	—	—
Convertible notes	**—**	**(89,577)**	—	(85,458)
Net exposure arising from recognised assets and liabilities	**1,460**	**188,805**	—	(85,458)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**10%**	**(502)**	10%	(10,121)
	(10%)	**502**	(10%)	10,121
Hong Kong Dollars	**10%**	**146**	10%	4,684
	(10%)	**(146)**	(10%)	(4,684)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2007.

Notes to the Financial Statements

(Expressed in Renminbi)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Equity price risk

The Group is exposed to equity price changes primarily arising from the listed investment classified as available-for-sale equity securities (see Note 18).

The Group's listed investment is listed on the Shanghai Stock Exchange. Listed investment held in the available-for-sale investment has been chosen based on its longer term growth potential and is monitored regularly for performance against expectations.

At 31 December 2008, it is estimated that an increase/(decrease) of 10%(2007: 10%) in the relevant stock price (for listed investment), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

The Group

	2008		2007	
	Increase/ (decrease) in the relevant risk variable rates	**Effect on other components of equity RMB'000**	Increase/ (decrease) in the relevant risk variable rates	Effect on other components of equity RMB'000
Change in the stock price of the listed investment	**10%**	**415**	10%	1,366
	(10%)	**(415)**	(10%)	(1,366)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock price had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock price, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock price, and that all other variables remain constant. The analysis is performed on the same basis for 2007.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(f) Fair value

The carrying amounts of the significant financial assets and liabilities are not materially different from their fair values as at 31 December 2008 and 2007.

As at 31 December 2008, the Group had one interest rate swap contract with the Agricultural Bank of China. The Group conducted the swap solely for investment purpose. The interest swap is in relation to the interest rate of 30-year USD Constant Maturity Swaps ("USD CMS30") and interest rate of 2-year USD Constant Maturity Swaps ("USD CMS2"). According to the interest swap contract, the gain or loss of the interest swap was calculated every six months and was determined by the number of days within six months that USD CMS30 minus USD CMS2 is less or greater than 0.10% in negative.

At 31 December 2008, it is estimated that an increase/(decrease) of 10% in the relevant accrual factor of USD CMS30 and USD CMS2, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

2008	
Increase/ (decrease) in relevant accrual factor	**Effect on profit after tax and retained profits RMB'000**
10%	**325**
(10%)	**(387)**

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Available-for-sale investment

The fair value of available-for-sale investments is determined by reference to their quoted bid price at the balance sheet date. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Notes to the Financial Statements

(Expressed in Renminbi)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(g) Estimation of fair values *(continued)*

(ii) Derivatives

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swaps at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(iii) Trade and bills receivable and other receivables and prepayments

The fair value of trade and bills receivable and other receivables and prepayments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iv) Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability portion of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

(v) Financial guarantees

The fair value of financial guarantees issued/received is determined by reference to fees charged/collected in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged/received by lenders/borrowers when the guarantee is made available with the estimated rates that lenders/borrowers would have charged/received, had the guarantees not been available, where reliable estimates of such information can be made.

(vi) Interest rates used for determining fair value

The Group uses the market rate of interest-bearing borrowings as of 31 December 2008. The interest rates used are disclosed in Note 25.

Notes to the Financial Statements

(Expressed in Renminbi)

34 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	2008	2007
	RMB'000	RMB'000
Authorised and contracted for		
– plants and equipments	**371,303**	462,456
Authorised but not contracted for		
– plants and equipments	**279,861**	—
	651,164	462,456

(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2008	2007
	RMB'000	RMB'000
Within 1 year	**15,756**	16,348
After 1 year but within 2 years	**15,849**	15,547
After 2 years but within 5 years	**46,582**	46,115
After 5 years	**154,601**	165,071
	232,788	243,081

The Group leases a number of pieces of land and port storage space under non-cancellable operating leases. The leases typically run without any contingent lease terms, nor did the lease agreements contain any terms that may require higher future rental payments, restrictions on dividends, additional liabilities, or other terms.

35 CONTINGENT LIABILITIES

(a) Financial guarantees issued

The Group entered into reciprocal guarantee contracts with Shandong Gold Group Co., Ltd. ("Shandong Gold") to secure certain banking facilities for each other. The directors of the Company considered that the related credit risk for transactions with Shandong Gold is low as they both received a normal credit rating from banks.

As at 31 December 2008, the directors do not consider it is probable that a claim will be made against the Group under any of the guarantees. The maximum exposure relating to financial guarantees issued by the Group as at 31 December 2008 was RMB1,500,000,000 (2007: RMB1,500,000,000).

Notes to the Financial Statements

(Expressed in Renminbi)

35 CONTINGENT LIABILITIES *(continued)*

(b) Environmental contingencies

As at the date of this report, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, the directors of the Company believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Due to the potential significant impact of cement production activities on the environment, however, the PRC government has begun to implement increasingly strict environmental protection standards for cement facilities and production activities.

36 RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2008, transactions with the following parties are considered as related party transaction.

Name of party	Relationship
Mr. Zhang Caikui	Equity holder of the ultimate holding company and chairman of the Company
Mr. Li Yanmin	Equity holder of the ultimate holding company and director of the Company
Mr. Yu Yuchuan	Equity holder of the ultimate holding company and director of the Company
Mr. Dong Chengtian	Equity holder of the ultimate holding company and director of the Company
Mr. Zhao Liping	Equity holder of the ultimate holding company and key management member of the Company
Mr. Zhao Yongkui	Equity holder of the ultimate holding company and key management member of the Company
Mr. Mi Jingtian	Equity holder of the ultimate holding company and key management member of the Company
Mr. Li Maohuan	Equity holder of the ultimate holding company and key management member of the Company
Mr. Wang Yongping	Equity holder of the ultimate holding company and key management member of the Company

(All above collectively the "Management Shareholders")

36 RELATED PARTY TRANSACTIONS *(continued)*

(a) During the year ended 31 December 2008, transactions with the following parties are considered as related party transaction. *(continued)*

Name of party	Relationship
China Shanshui Investment Company Limited ("China Shanshui Investment")	Ultimate holding company
MS Cement Limited ("MS Cement")	Equity holder of the Company
MS Cement II Limited ("MS Cement II")	Equity holder of the Company
CDH Cement Limited ("CDH Cement")	Equity holder of the Company
International Finance Corporation ("IFC")	Equity holder of the Company
Jinan Shanshui	Fellow subsidiary under common ultimate control
Jinan Shanshui Lixin Investment Development Co., Ltd. ("Shanshui Lixin")	Fellow subsidiary under common ultimate control
Jinan Shanshui Jianxin Investment Development Co., Ltd. ("Shanshui Jianxin")	Fellow subsidiary under common ultimate control
Tianjin Tianhui Cement Co., Ltd. ("Tianjin Tianhui")	Fellow subsidiary under common ultimate control
Shanshui Stanford New Building Materials Co., Ltd. ("Stanford")	Fellow subsidiary under common ultimate control
Shanshui Jinzhu Powder Co., Ltd. ("Jinzhu Powder")	Fellow subsidiary under common ultimate control
Dongyue Packaging Co., Ltd. ("Dongyue")	Fellow subsidiary under common ultimate control
Jinan Cement Product Factory ("Jinan Cement Product")	Fellow subsidiary under common ultimate control
Jinan Cement Factory ("Jinan Cement")	Fellow subsidiary under common ultimate control
Jinan Huanghai Cement Co., Ltd. ("Jinan Huanghai")	Fellow subsidiary under common ultimate control
Jinan Dongfanghong Cement Co., Ltd. ("Jinan Dongfanghong")	Fellow subsidiary under common ultimate control
Jinan Shanshui Group Property Development Co., Ltd. ("Property Development")	Fellow subsidiary under common ultimate control
Jinan Shanshui Commercial City Co., Ltd. ("Commercial City")	Fellow subsidiary under common ultimate control

Notes to the Financial Statements

(Expressed in Renminbi)

36 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group

	Note	2008 RMB'000	2007 RMB'000
Recurring transactions			
Sales:	(i)		
– Tianjin Tianhui		**55,436**	21,606
Rental income:			
– Jinzhu Powder		**135**	135
– Stanford		**559**	559
		694	694
Brand royalty income:	(ii)		
– Tianjin Tianhui		**418**	—
Management Fees			
– Tianjin Tianhui	(vi)	**218**	—
Loan Service Fees			
– IFC	(iv)	**4,576**	—
Non-recurring transactions			
Transactions with the Group treasury:	(iii)		
From:			
– Tianjin Tianhui		**—**	37,810

36 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group *(continued)*

	Note	2008 RMB'000	2007 RMB'000
To:			
– Jinan Shanshui		—	762
– Tianjin Tianhui		—	25,418
– Jinan Cement Product		—	50
– Shanshui Lixin		—	9,702
– Shanshui Jianxin		—	60
– Jinan Cement		—	442
– Commercial City		—	2
– Property Development		—	41
– Jinan Dongfanghong		—	179
– Jinan Huanghai		—	268
– Stanford		3,000	—
		3,000	36,924
Advances from:	(iii)		
– Dongyue		—	276
Advances to:	(iii)		
– Jinan Shanshui		—	115,434
– Jinan Cement Product		—	9,557
– Dongyue		—	2,233
		—	127,224
Investment disposal to:			
– Shanshui Lixin		—	2,584
– Shanshui Jianxin		—	456
		—	3,040
Financing to:			
– China Shanshui Investment	(v)	36,813	—
Repayment of loans and related interests from:			
– China Shanshui Investment	(v)	36,079	—

Notes to the Financial Statements

(Expressed in Renminbi)

36 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties of the Group *(continued)*

	Note	2008 RMB'000	2007 RMB'000
Repayment of loans and related interests to:			
– Management Shareholders		—	59,069
– IFC	25(b)	88,363	—
		88,363	59,069
Convertible notes issued to:			
– MS Cement		—	76,088
– MS Cement II		—	26,673
– CDH Cement		—	30,828
– IFC		—	16,511
		—	150,100

Notes:

(i) This represents sales of clinkers which were carried out in accordance with the terms of the underlying agreements. The directors of the Company are of the opinion that the sales were conducted on normal commercial terms and in the ordinary course of business of the Group.

(ii) The Group entered into a trademark licence agreement with Tianjin Tianhui in 2008. The agreement allows Tianjin Tianhui to use the Shanshui Dongyue brand a for a trademark fee of RMB1 yuan per ton of cement produced by Tianjin Tianhui. The latter produced 417,648 ton of cement during the year ended 31 December 2008.

(iii) These transactions represent the deposit into/withdrawal from the Group's treasury by related parties and advances from/to related parties. As at 31 December 2008, all the balances had been fully settled. The Group has ceased such transactions with those related parties since 1 January 2008.

(iv) This represents the loan service fees to IFC in respect of new loan facility.

(v) This related to loan to China Shanshui Investment which carried interest at 2.70% per annum. China Shanshui Investment had fully settled the principal and related interest in June 2008.

(vi) Pursuant to the management agreement between Tianjin Tianhui and Shandong Shanshui, Shandong Shanshui is entitled to an annual management fee of RMB100,000 plus 5% share of the annual gross profits of Tianjin Tianhui. This represents the total management fees of Shandong Shanshui for the year ended 31 December 2008.

36 RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties of the Group:

	2008 RMB'000	2007 RMB'000
Other receivables due from:		
– Tianjin Tianhui	**3,717**	4,846
– Stanford	**1,277**	3,879
– Jinzhu Powder	**169**	169
– China Shanshui Investment	**734**	—
	5,897	8,894
Customer deposits and receipts in advance from:		
– Tianjin Tianhui	**46**	—
Other payable due to:		
– IFC	**5,108**	—
Loans due to:		
– IFC	**289,156**	365,230
Liability portion of convertible notes due to:		
– MS Cement	**45,408**	43,320
– MS Cement II	**15,918**	15,186
– CDH Cement	**18,398**	17,552
– IFC	**9,853**	9,400
	89,577	85,458
Outstanding bank loans secured by:		
– Jinan Shanshui	**44,500**	44,500

Notes to the Financial Statements

(Expressed in Renminbi)

36 RELATED PARTY TRANSACTIONS *(continued)*

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in Note 8, is as follows:

	2008	2007
	RMB'000	RMB'000
Salary, allowances and other benefits	**31,414**	13,157
Contributions to defined contribution retirement plans	**118**	128
	31,532	13,285

37 AMOUNT DUE FROM/TO SUBSIDIARIES

At 31 December 2008, these represent cash advances to Shanshui Cement Hong Kong and cash advances from Shandong Shanshui. These amounts are unsecured, interest-free and repayable on demand.

38 ULTIMATE CONTROLLING PARTY

The directors consider the ultimate holding company of the Company as at 31 December 2008 to be China Shanshui Investment, which is incorporated in Hong Kong, China.

39 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 11.

40 ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty are as follows:

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an ongoing basis, the Group evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

40 ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set out in Note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairments

(i) Property, plant and equipment

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate the net selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amount of operating costs.

(ii) Trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the Group's regular review of aging analysis and evaluation of collectibles.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be adopted is about the ability of the debtors to settle the receivables. Even though the Group has used all available information to make this estimation, inherent uncertainty exists and actual un-collectable amounts may be higher than the amount estimated.

(iii) Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. The Group will reassess the estimations at each balance sheet date.

Notes to the Financial Statements

(Expressed in Renminbi)

40 ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(a) Impairments *(continued)*

(iv) Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 1(l). The recoverable amounts of cash-generating units have been determined based on the higher of the cash-generating units' fair value less costs to sell and its value in use. These calculations require the use of estimates which are disclosed in Note 16.

(v) Impairment of customer, supplier relationship and trademarks

The Group assesses at each balance sheet date whether there is any indication that customer relationships, supplier relationship and trademarks may be impaired. The estimation is based on recoverable amount which is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to those intangible assets for which the estimates of future cash flows have not been adjusted.

(b) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods are adjusted if there are significant changes from previous estimates.

(c) Actuarial determined benefit obligations

The Group assesses the actuarial assumptions and methodology periodically to ensure their reasonableness at each balance sheet date.

The Group would assess the assumptions of recognition, such as the discount rate and the benefit increase rate to assess the reasonableness of the methodology adopted. Should any of these factors change significantly and render the existing method inappropriate, the Group will consider a more appropriate methodology.

40 ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Taxation

The Group assesses the tax effect of all transactions and make provision for tax obligations. The Group reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations.

The Group consumed industrial waste in the production of cement and clinker. Such consumption may qualify for certain government subsidies and corresponding income tax exemptions pursuant to the applicable PRC tax laws and regulations. The tax refund or exemption is not recognised until the refund is received or the formal approval of exemption from the tax authorities is obtained.

Deferred tax assets of the Group were recognised from unused tax loss allowance and deductible temporary differences. As the deferred tax assets cannot be recognised until the allowance is probable for deduction against future taxable profits, the Group estimates the expected realisation of future taxable profits. The Group reviews the judgment continuously and recognises additional deferred tax assets if taxable profits are probable to be recognised.

(e) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case.

The Group is dependent upon future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operations to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account future projections of the Group's profits and cash inflows from operations and the ability of the Group to obtain continued bank financing to finance its continuing operation. Accordingly, management has prepared the financial statements on a going concern basis. An adverse change in any of the above conditions would require the financial statements to be prepared on an alternative authoritative basis and such basis, together with the fact that the financial statements is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated in the financial statements.

Notes to the Financial Statements

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41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2008:

	Effective for accounting period beginning on or after
IFRIC 13, Customer Loyalty Programmes	1 July 2008
IFRS 8, Operating Segments	1 January 2009
Revised IAS 1, Presentation of Financial Statements	1 January 2009
Revised IAS 23, Borrowing Costs	1 January 2009
Amendments to IFRS 2, Share-Based Payment – Vesting Conditions and Cancellations	1 January 2009
Revised IFRS 3, Business Combination	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Revised IAS 27, Consolidated and Separate Financial Statements	1 July 2009
Amendments to IAS 39, Financial Instruments – Recognition and Measurement: Eligible Hedged Items	1 July 2009
IFRIC 17, Distributions of non-cash assets to owners	1 July 2009
IFRIC 18, Transfers of assets from customers	Applies to transfers of assets from customers received on or after 1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.